REPLACEMENT APPENDIX A

$11,100,000
STATE OF WASHINGTON
CERTIFICATES OF PARTICIPATION, SERIES 2005F
Evidencing and Representing Undivided Proportionate Interests
of the Owners Thereof in State Payments to be Made by the State of Washington
Pursuant to the Master Financing Agreements

The enclosed Appendix A was attached to the Preliminary Official Statement dated November 23, 2005, for the above-named Certificates of Participation (the "Series 2005F Certificates"). A prior version of this Appendix A inadvertently was attached to the final Official Statement dated December 6, 2005, for the Series 2005F Certificates. Therefore, the enclosed Appendix A should be substituted for the Appendix A contained in your copy of the final Official Statement for the Series 2005F Certificates.

January 5, 2006

APPENDIX A

GENERAL AND ECONOMIC INFORMATION

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INTRODUCTION

State Overview

The state of Washington (the "state") is located in the northwest corner of the contiguous 48 states and is the 20th largest state by land area and the 15th largest state by population. Based on the U.S. Census Bureau's 2000 Census, the state's resident population is 5,894,121, an increase of 21.1 percent over 1990.

The state capital is Olympia, and its largest city is Seattle. Seattle is situated on Puget Sound and is part of the international trade, manufacturing, high technology, and business service corridor that extends from Everett to Tacoma. The Pacific Coast/Puget Sound region of the state includes approximately 75 percent of the population, the bulk of industrial activity and most of the state's forests, which are important to the timber and paper industries. The balance of the state includes agricultural areas primarily devoted to grain, apple and other fruit orchards and dairy operations.

In recent years the state's economy has diversified, with employment in the trade and service sectors representing an increasing percentage of total employment relative to the manufacturing sector.

For an assessment of the current economic and budgetary outlook of the state, see "Outlook for the 2003-05 and 2005-07 Biennia." For certain economic and demographic information with respect to the state, see "Economic Information."

State Finance Committee

The State Finance Committee (the "Committee") is composed of the Governor, Lieutenant Governor and State Treasurer, the latter being designated by law as Chairman. The Office of the State Treasurer provides administrative support to the Committee. By statutory provision, the Committee is delegated authority to supervise and control the issuance of all state bonds. A Deputy State Treasurer acts as recording officer for the Committee and is responsible for the administration of official duties in accordance with prescribed policies of the Committee.

REVENUES, EXPENDITURES AND FISCAL CONTROLS

Revenues

The state's tax revenues are comprised primarily of excise and *ad valorem* taxes. By constitutional provision, the aggregate of all regular (nonvoted) tax levies upon real and personal property by the state and local taxing districts may not exceed one percent of the true and fair value of such property. Excess levies are subject to voter approval.

Excise Taxes. Certain select sales and gross receipts taxes accounted for approximately 59.39 percent of total state tax revenues for the fiscal year ending June 30, 2004.

The retail sales tax and its companion use tax represent the largest source of state tax revenue, accounting for 47.59 percent of total collections. The retail sales and use tax is applied to a broad base of tangible personal property and selected services purchased by consumers, including construction (labor and materials), some machinery and supplies used by businesses, services and repair of real and personal property, and other transactions not taxed in many other states. Among the various items not subject to this tax are most personal services, motor vehicle fuel, food for off-premises consumption, trade-ins, manufacturing machinery, and purchases for resale. The current state retail sales and use tax rate is 6.5 percent.

Business and occupation tax collections represented approximately 15.86 percent of total state taxes for the fiscal year ending June 30, 2004. The business and occupation tax is applied to gross receipts of all business activities conducted within the state. Business and occupation tax rates include a principal rate of 0.484 percent of gross income for manufacturing and wholesaling businesses. Retail firms pay 0.471 percent, and services pay 1.5 percent.

The motor vehicle fuel tax represented approximately 7.07 percent of all state taxes for Fiscal Year 2004. The tax rate on December 31, 2004, was 28 cents per gallon.

Property Taxes. The state's property tax is levied against the true and fair value of property as determined by the Department of Revenue. The property tax for local taxing districts is levied against the assessed value as determined by county assessors. For property taxes payable in 2003, assessed value averaged 91.8 percent of fair market value.

The state property tax levy represented approximately 11.66 percent of all state tax revenues for Fiscal Year 2004. The state property tax levy is limited to the lesser of 101 percent or 100 percent plus the percentage change in inflation (as measured by the Implicit Price Deflator for Personal Consumption (the "IPD")) of the dollar amount of property taxes levied in the highest of the three most recent years plus an additional dollar amount calculated by multiplying the increase in assessed value resulting from new construction and improvements by the property tax rate for the preceding year. The state levy rate for taxes due in 2004 was $2.759 per $1,000 of true and fair property value.

By statute, all of the income from the state's property tax levy is dedicated to the support of public schools.

Income Tax. The State Constitution, as interpreted by the State Supreme Court, prohibits the imposition of a graduated tax on net income.

Tax Collection. Four state agencies are responsible for administering the major state taxes: the Department of Revenue, the Department of Licensing, the Liquor Control Board, and the Office of the Insurance Commissioner. The State Treasurer receives the revenues from the collecting agencies and deposits and distributes the funds as required by law. Almost all state agencies collect some form of revenue. For state budget purposes, however, the definition of tax generally excludes such revenue sources as license fees, liquor profits, lottery receipts, charges for service such as tuition, federal grants and revenue sharing, and proceeds of bond issues.

State Expenditure and Revenue Limitation—Initiative 601. Initiative 601, passed by the voters in November 1993, places limits on state taxation and General Fund-State government expenditures and sets forth a series of guidelines for limiting revenue and expenditure increases and stabilizing long-range budget planning.

Under Initiative 601, the state generally is prohibited from increasing expenditures from the General Fund-State during any fiscal year by more than the fiscal growth factor, which is calculated annually and is defined as the average of the sum of inflation and population change for each of the three prior fiscal years. The inflation index used for the computation of the fiscal growth factor is the IPD, which is determined from the same data used to establish the U.S. gross national product. This growth factor is used to determine a state spending limit for programs and expenditures supported by the General Fund-State. The spending limit became operational on July 1, 1995, based on the population and inflation growth factor determined in November 1994, which is based upon data accumulated for Fiscal Years 1992, 1993 and 1994. Annual adjustments to the expenditure limit are made by the Expenditure Limit Committee ("ELC"), which is comprised of members from the Office of Financial Management ("OFM"), legislative fiscal committees and the Office of the Attorney General. The annual adjustment to the limit is based on the previous year's actual General Fund-State expenditure and changes in population and inflation growth. The fiscal growth factors for the 1997-99 Biennium were 4.05 percent for Fiscal Year 1998 and 4.18 percent for Fiscal Year 1999. The fiscal growth factors for the 1999-01 Biennium are 3.32 percent for Fiscal Year 2000 and 2.87 percent for Fiscal Year 2001. The fiscal growth factors for the 2001-03 Biennium are 2.79 percent for Fiscal Year 2002 and 3.29 percent for Fiscal Year 2003. However, statutory changes to the expenditure limit adopted in the 2000 Legislative Session make it possible for the effective rate of increase in expenditures to be higher than the fiscal growth factors (Engrossed House Bill 3169 ("EHB 3169")).

Initiative 601 also directs the ELC to make downward adjustments in the expenditure limit for costs of any state program or function that is shifted from the General Fund-State to another funding source, or for moneys that are transferred from the General Fund-State to another fund or account. In the event costs of a federal, state or local government program are transferred to or from the state by court order or legislative enactment, under the Initiative the expenditure limit may be increased or decreased accordingly by the ELC. Restrictions are placed on the addition or transfer of functions to local governments unless there is reimbursement.

The statutory changes to the expenditure limit adopted in the 2000 Legislative Session (EHB 3169) now allow the spending limit to be increased when revenues from another fund or account are transferred to the General Fund-State. As a result of this change, growth in General Fund-State expenditures can exceed the Initiative 601 fiscal growth factors to the extent that surplus revenues in other accounts are available for transfer to the General Fund-State.

Initiative 601 in its original form also limited revenue increases. It required that any action by the Legislature to raise state revenues be taken only if approved by a two-thirds vote of both houses of the Legislature. In the 2002 Legislative Session, a change to this provision was adopted (as a part of the Supplemental Budget Bill) which allows revenues to be increased with a simple majority vote. This provision applied to actions taken through June 30, 2003.

Initiative 601 abolished the Budget Stabilization Account and created two new reserve funds (the Emergency Reserve Fund and the Education Construction Fund) for depositing revenues in excess of the spending limit. Initiative 728, adopted by voters in November 2000, added a third fund, the Student Achievement Fund, which captures a portion of revenues in excess of the spending limit. Ending balances in the Budget Stabilization Account were transferred to the General Fund-State ($100 million) and the Pension Reserve Account ($25 million) in the fiscal year ending June 1996.

Initiative 601 in its original form allowed the Legislature to access and appropriate money from the Emergency Reserve Fund ("ERF") based on a two-thirds majority. A measure adopted in the 2002 Legislative Session temporarily allows access to money in the ERF based on a simple majority. EHB 3169, adopted in the 2000 Legislative Session, provides the Office of the State Treasurer with the authority to transfer monies between the General Fund-State and the ERF at the conclusion of each fiscal year, to ensure that revenues deposited in the ERF for that year are exactly equal to the amount of revenues collected in excess of the expenditure limit for that year. During the 2003 special session, the Legislature authorized the transfer of the ERF balance to the General Fund-State in Fiscal Year 2004.

Most of Initiative 601, including the General Fund-State expenditure limit, became effective July 1, 1995. Two provisions of the initiative became effective on December 1, 1993: the requirement for supermajority legislative approval of fee increases beyond the fiscal year growth factor, and a restriction on new taxes being imposed without voter approval. At the beginning of Fiscal Year 1996 (July 1, 1995), the requirement for voter approval for new tax measures expired. Taxes now can be enacted with a two-thirds majority of both houses of the Legislature if resulting General Fund-State expenditures do not exceed the spending limit. Voter approval still would be required to exceed the spending limit. However, the Supplemental Budget Bill passed in the 2002 Legislative Session allows revenue increases to occur based on a simple majority vote for any action taken through June 30, 2003.

Finally, EHB 3169 changes the threshold for spillover of money from the Emergency Reserve Fund to the Education Construction Fund from five percent of biennial revenues to five percent of annual revenues and gives the State Treasurer the authority to make the appropriate end-of-year reconciliations between the funds.

In the 2005 legislative session, the I-601 statute was again changed to allow revenue increases to be passed with a simple majority for funding the 2005-07 Biennial Budget. SSB 6078 will also change the calculation of the I-601 expenditure limit, but not until the 2007-09 Biennium, basing it on average growth in state personal income for the prior ten fiscal years. In addition, the calculation will be based not just on the state General Fund, but will also include related funds or "near-General Fund" accounts, including the Health Services Account, Violence Reduction and Drug Enforcement Account, Public Safety and Education Account, Water Quality Account, and Student Achievement Account.

State Nontax Revenue. The largest components of state nontax revenue include such items as revenues derived from the sale of supplies, materials and services, fines and forfeitures, income from property, transfer of lottery proceeds, and income from liquor sales.

Federal Grants. Legislative appropriations for federal programs are designated specifically from federal revenue sources. To the extent that federal funds are not received, the appropriated expenditures may not be incurred.

Expenditures

Expenditures of general state revenues are made pursuant to constitutional and statutory mandates. Most general state revenue is deposited in the General Fund-State. For a breakdown of expenditures by function, see the table titled "Washington State Expenditures" below.

State Funding of Basic Education. The state's expenditures for public schools are mandated by the state constitutional requirement for support of the common schools. In 1976, Seattle School District No. 1 brought suit against the state to require the state, under the State Constitution, to make "ample provision for common schools." The decision, upheld by the State Supreme Court in 1978, required the state to ensure that each public school district would receive the funds needed to provide a basic education. The Court ordered the Legislature to decide the level of program funding and the funding mechanism.

The Legislature has passed four major pieces of legislation to further ensure stability and predictability for school funding.

(i) *The Basic Education Act* was passed in 1977, before the Supreme Court ruling, and describes course offerings, teacher contract hours, and core student/staff ratios. The Supreme Court recognized the passage of this Act in its opinion, but specifically declined to comment upon its adequacy.

(ii) *The Levy Lid Act*, also passed in 1977 and last amended in 1992, addresses property tax issues affecting basic education funding by limiting local property tax levies and providing for the gradual equalization of levy capacity per student throughout the state.

(iii) In 1981, legislation limiting local compensation increases to those authorized by the state was passed. Since personnel costs comprise over 80 percent of the public school budget, this legislation provides state financial decision-makers with an important cost containment tool.

(iv) *The School Financial Improvement Act* amended the Levy Lid Act in 1987. The amended act provided for state assistance to equalize tax rates for local levies, established a state-wide salary allocation schedule with mandated minimum salaries for teachers and required school districts to maintain minimum teacher/student ratios.

Social and Health Services. The Department of Social and Health Services ("DSHS") is the primary human service agency in the state; its expenditures account for the second largest category of state budget expenditures. DSHS provides services that are essential for the physical safety, security and survival of individuals and families, including protective services for children, the aged and mentally disabled people, as well as for people in institutions and other residential care facilities.

The largest expenditure within DSHS is the Medical Assistance program. Through this program, necessary medical care is made available to recipients of cash assistance programs, beneficiaries of Supplemental Security Income and other eligible people with low incomes who do not qualify for income assistance. In addition to support from the General Fund-State, funding is received from the federal government for those people and services covered under Medicaid (Title XIX of the Social Security Act). The Medical Assistance budget has grown significantly in recent years. Growth in the number of eligible recipient groups, such as pregnant women and children, and growth in other eligible populations, such as disabled people, has resulted in increased expenditures. Rising health care costs and requirements to provide higher payments to hospitals also have added to the increase in this budget.

The Economic Services program provides support to families with limited incomes and disabled people who cannot work. The federal government is providing funds for the Temporary Assistance for Needy Families program and in several other smaller programs.

DSHS also provides other social service programs. It is responsible for supporting community mental health programs and operating state psychiatric hospitals, institutions for the developmentally disabled, nursing homes, institutions for juvenile rehabilitation, child welfare service programs, child support enforcement activities, drug and substance abuse treatment programs, and vocational rehabilitation services.

Corrections. The Department of Corrections operates 15 correctional institutions, including two prerelease facilities and 15 work-training release facilities. The rapid growth in inmate population (the primary cost driver) is, in part, the result of various crime initiatives enacted in the state. These include the Omnibus Drug Act of 1989, the Community Protection Act of 1990, Initiative 593—"Three Strikes and You're Out," approved by Washington voters in November 1993, and the Violence Prevention Act of 1994. Over the past several years the Department of Corrections has constructed nearly 5,000 new prison beds. The last major construction of a new facility was the Stafford Creek Corrections Center, a 1,936-bed, multi-custody facility that opened in April 2000 near Aberdeen, approximately 50 miles west of Olympia. In 2007, an expansion at the Washington Penitentiary in Walla Walla will open an additional 568 close custody and intensive management beds. Even with the additional prison beds, the Department of Corrections continues to have overcrowding issues, and relies on renting prison beds from out-of-state. As of the end of April 2005, approximately 540 inmates have been transported to prisons in Nevada, Colorado, Arizona, and Minnesota. In addition, the state rents 474 beds from local jurisdictions in Washington. The 2005 Legislature funded the construction of a new 1,258-bed prison expansion at the Coyote Ridge Correctional Center, which is scheduled to be completed by June 2006 and operational for the 2007-09 Biennium..

Budgeting, Accounting and Fiscal Controls

Budgeting. The state operates on a July 1 to June 30 fiscal year and on a biennial budget basis, the constitutionally prescribed period. Formulation of the state's operating budget is initiated by OFM, the Governor's budget agency, with the distribution of instructions to all state agencies establishing guidelines and information requirements. Development of agency budgets begins approximately nine months prior to the regular legislative sessions, which convene in odd-numbered years. Formal budget requests are forwarded by each agency to the Director of the OFM in the summer. The budget requests are revised and evaluated by the Director of the OFM and his or her staff, and alternative methods of delivering services are examined and evaluated. Following this evaluation, recommended budget levels are prepared for the Governor by the Director of the OFM. These recommendations, based on the priorities of the administration, are the result of an examination of the relative merits of each program, projections of caseload, enrollment and population statistics, an assessment of the state's overall priorities, and the availability of revenue. The Expenditure Limit Committee, staffed by Senate Ways and Means, House Appropriations, and OFM have the responsibility for calculation and adoption of the expenditure limit each November.

Budget tables and statistics provided by the OFM for inclusion in this Official Statement are based on generally accepted accounting principles ("GAAP"). GAAP provides that the recognition and inclusion of revenues occur when they are measurable and earned, regardless of when the funds are received. Given the nature of the state's revenue collection, on an accrual basis revenues are available for expenditure prior to receipt. Recognizing that the expenditure of funds prior to receipt of offsetting revenue would erode the state's cash balance, the Legislature enacted laws which limited the expenditure of funds to the amount of revenue actually received or money on deposit over the course of the biennium. These limitations do not apply to the state's general obligation bonds.

The Governor reviews the OFM's operating budget recommendations and accepts or modifies them. Following final decisions by the Governor the budget document is published as the Governor's budget and presented to the Legislature for consideration in December of even-numbered years. The formal budget presentation to the Legislature is delivered by the Governor the following January during the first week of the legislative session. This presentation outlines the administration's primary goals and offers recommendations for the adoption of the budget to achieve those objectives.

Subsequent to the introduction of revenue and expenditure measures that embody the Governor's proposed operating budget, the Legislature engages in extensive budget deliberations and committee hearings. Legislative authorizations of long-term debt also are considered to finance a portion of the capital budget. Upon adoption of revenue and expenditure legislation by the House of Representatives and the Senate, the bills are transmitted to the Governor, who has constitutional authority to veto sections of the bills and append in writing the reasons therefor.

During a biennium, supplemental budget requests may be submitted to the Legislature during either the regular annual session or any extraordinary session, subject to the approval of the Governor.

Accounting. The state's accounting records are maintained in conformance with GAAP, as promulgated by the Governmental Accounting Standards Board ("GASB"). GAAP accounting is mandated by RCW 43.88.037. The state's Comprehensive Annual Financial Report ("CAFR") is accounted on a GAAP basis. The accounting system produces monthly financial statements at the state-wide combined level and at the agency level, which are used in the preparation of the state's fiscal year CAFR, including its 2004 CAFR. The state's fiscal 2004 CAFR contains Annual Financial Statements prepared in accordance with GAAP as promulgated by GASB (the "2004 Annual Financial Statements"), a copy of which has been filed with each nationally recognized municipal securities information repository ("NRMSIR"). Excerpts from the state's 2004 CAFR are attached as Appendix D. Copies of the state's entire 2004 CAFR are available on the Office of Financial Management's website at *http://www.ofm.wa.gov/cafr/2004/cafr04toc.htm* or upon request from the Office of the State Treasurer.

The Government Finance Officers Association of the United States and Canada awarded a Certificate of Achievement for Excellence in Financial Reporting to the state for its CAFR for each of the Fiscal Years 1987 through 2004. To be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report, the content of which conforms to program standards. Such reports must satisfy both GAAP and applicable legal requirements.

Fiscal Controls. To ensure that the budget remains in balance, fiscal controls are exercised during the biennium through an allotment process, which requires each agency to submit a monthly expenditure plan. This expenditure plan must be approved by the OFM and provides the authority for agencies to spend funds within statutory maximums specified in the legislatively adopted budget. Reports are available that compare actual agency expenditures to estimates.

The 2005-07 Biennium began July 1, 2005. State law requires a balanced biennial budget. If at any time during the fiscal period the Governor projects a cash deficit because disbursements will exceed the aggregate of estimated receipts plus beginning cash surplus, the Governor is required to make across-the-board reductions in allotments in order to prevent a cash deficit, thereby reducing expenditures of appropriated funds, unless the Legislature has directed the liquidation of the cash deficit over one or more fiscal periods. Across-the-board reductions occur only in those funds estimated to have a cash deficit. For example, if the General Fund-State were projected to have a deficit, the portion of an agency's budget provided by the General Fund-State would be subject to reduction. Across-the-board reductions are placed in reserve status until needed to avert a budget deficit; if the deficit does not materialize, the across-the-board reductions are returned to the agencies.

Debt Issuance Policy

All state general obligation debt and other evidence of indebtedness is authorized by the Legislature and issued under the authority granted to the Committee by the Legislature.

In 1996, the Committee adopted a Debt Issuance Policy that, among other things, addresses the roles and responsibilities of the Committee and the State Treasurer, standards of conduct and appointment of professional service providers. The Debt Issuance Policy also addresses methods of sale, appointments of underwriters, pricing and allocation of negotiated sales, and refunding savings thresholds.

Under "Conditions of Sale," the Debt Issuance Policy generally calls for (i) level debt service, i.e. approximately equal amounts per year, (ii) fixed interest rates and (iii) debt life shorter than or equal to estimated useful life of the facility financed. These conditions may not apply in all cases.

State Investment Programs

The State Treasurer's Office is responsible for the investment management of the state's operating funds totaling approximately $2 billion to $4 billion from time to time through its Treasurer's Cash Management Account (the "CMA"). The Treasurer also is responsible for administering the Washington State Local Government Investment Pool (the "LGIP"), an approximately $5 billion fund that invests money on behalf of more than 400 cities, counties, special municipal districts, and higher education institutions.

Permissible investments for both funds include U.S. government and agency securities, bankers acceptances, high quality commercial paper, repurchase and reverse repurchase agreements, and certificates of deposits with qualified state depositories.

Treasurer's Cash Management Account. The CMA is a nonvoluntary pool of state agency funds; agencies are not permitted to make discretionary withdrawals for alternative investment purposes. The CMA may invest in securities with maturities out to ten years. The average life of the CMA generally ranges from one to two years.

In its management of the CMA pursuant to the Investment Policy adopted by the State Treasurer in March 2005, the State Treasurer sets its investment objectives pursuant to modern portfolio theory. To manage state funds more efficiently and effectively, the State Treasurer's CMA investments are separated into two portfolios, each with its own risk objectives. The policy sets forth, *inter alia*, the practices, procedures and restrictions applicable to the investment of funds and specifically denominates eligible investments and certain restrictions on portfolio composition. Internal controls and reporting requirements are mandated by the Investment Policy to allow for oversight and monitoring of performance.

Local Government Investment Pool. The LGIP, authorized by chapter 43.250 RCW, is a voluntary pool which provides its participants the opportunity to take advantage of the economies of scale inherent in pooling. It also is intended to offer participants increased safety of principal and the ability to achieve a higher investment yield than otherwise would be available to them. The LGIP is a conservatively managed, highly liquid pool comparable to a SEC Rule 2a-7 money market fund, restricted to Fixed-rate investments with maturities of 397 days or less, and floating or variable rate investments with maturities of 762 days or less. The average life generally ranges from 30 to 60 days.

The LGIP adheres to the traditional principles applicable to the prudent investment of public funds, which are, in order of priority: (i) the safety of principal, (ii) the assurance of sufficient liquidity to meet cash flow demands and (iii) the attainment of the highest possible yield within the constraints of the first two goals. Historically, both the CMA and the LGIP have had sufficient liquidity to meet all cash flow demands.

Asset Liability Management

Up to ten percent of the state's total general obligation debt may be in variable rate form under a policy adopted by the Committee in July 1995. The purpose of this feature of debt management policy is to coordinate state debt and investment practices through asset liability management, which is defined as the management of the exposure to interest rate risk through active management of certain financial elements of the state's balance sheet. Coordinating the management of state debt and state investment is expected to reduce the volatility and the impact of interest rate changes in the General Fund-State.

Historically, state debt has been issued in long-term, fixed-rate form, while state investments have been made on a short-term basis. The issuance of some variable rate debt is intended to provide a closer match of interest expense to interest income.

State Economic and Revenue Forecasting Process

To assist in its financial planning, the state prepares quarterly economic forecasts derived from national econometric models. The Legislature, through enactment of Chapter 138, Laws of 1984 (RCW 82.01.130), established the Office of Forecast Council (the "Forecast Council") in the Department of Revenue, and in 1990, the Legislature established the Forecast Council as an independent body. The Forecast Council consists of six members, two appointed by the Governor and two appointed from each of the political caucuses of the Senate and House of Representatives. The Forecast Council approves the official revenue forecast for the state. The Forecast Council law requires a review of financial performance eight times during the biennium and requires action if changing economic conditions affect the budget. This "early warning" system gives policy makers time to reduce expenditures or raise taxes during economic downturns and provides the option of increasing financial reserves or dealing with emergent spending needs in periods of economic growth.

In mid-February (or March in odd-numbered years), June, September, and November, subject to the approval of the Forecast Council, the forecast supervisor uses forecasts of the U.S. economy to prepare an official state economic and revenue forecast and two unofficial forecasts, one based upon optimistic economic and revenue assumptions and one based upon pessimistic economic and revenue assumptions. The groundwork for these quarterly forecasts is undertaken in conjunction with the results of monthly state revenue collections, using a formally created economic and revenue forecast workgroup. This group consists of lead staff members representing the Department of Revenue and the OFM, as well as staff representatives of the legislative fiscal committees.

The quarterly forecast process starts with a preliminary review of the Forecast Council's findings by the workgroup. At approximately the same time, the Governor's Council of Economic Advisors is convened to provide a view of the state and national economy from outside state government. These views and cumulative and recent revenue performance are taken into account in the preparation of forecast scenarios. The Forecast Council meets to consider the economic outlook and, after a two-week interval, considers the revenue forecast and pessimistic and optimistic projections.

The state forecast by the Forecast Council that is discussed and analyzed in this Appendix A is the state forecast that was released in November 2005. This forecast is the basis for the projections described under "Summary of Recent and Projected Operating Results" and "Outlook for the 2003-05 and 2005-07 Biennia." The next forecast will be released on or about February 16, 2006. Copies of the report and subsequent reports may be obtained from the Office of Economic and Revenue Forecast Council (*www.erfc.wa.gov)*.

SUMMARY OF RECENT AND PROJECTED OPERATING RESULTS

The following tables display projected revenues and expenditures for the 2003-05 and 2005-07 Biennia. Revenues for the 2003-05 and 2005-07 Biennia are based on the November 2005 Forecast. Expenditures for the 2003-05 and 2005-07 Biennia are based on the 2005 Supplemental Operating Budget and the 2005-07 Operating Budget passed by the Legislature in April 2005 and signed by the Governor on May 17, 2005. The outlook for the 2003-05 and 2005-07 Biennia immediately follows the tables.

WASHINGTON STATE REVENUE
MODIFIED ACCRUAL BASIS
(in Millions)

	2003-05 Biennium Estimate (1)	2005-07 Biennium Estimate (1)
Beginning General Fund-State Balance	$ 405	$ 853
GENERAL FUND-STATE REVENUE		
Retail Sales and Use Taxes	$ 12,742	$ 14,538
Real Estate Excise	1,327	1,609
Business and Occupation	4,202	4,826
Property Tax	2,783	2,828
Other Taxes	1,871	2,024
Subtotal Tax Revenue	**$ 22,925**	**$ 25,825**
Other Nontax Revenue	$ 461	$ 551
Other Financing	2	(41)
Transfers from Other Funds into State General Fund	453	217
Federal Fiscal Relief (Grant Portion)	90	0
Changes in Reserves/Other Adjustments	188	0
TOTAL GENERAL FUND-STATE REVENUE (2)	**$ 24,524**	**$ 27,405**
Federal Revenue	$ 10,665	$ 11,486
Private/Local Revenue	600	329
TOTAL GENERAL FUND-STATE REVENUE	**$ 35,789**	**$ 39,220**

(1) Based on the November 2005 General Fund-State Revenue Forecast.
(2) Including balance from previous biennium.

Note: Totals may not add due to rounding.

Source: Office of Financial Management

WASHINGTON STATE EXPENDITURES
MODIFIED ACCRUAL BASIS
(in Millions)

GENERAL FUND-STATE EXPENDITURES	2003-05 Biennium Estimate (2)	2005-07 Biennium Estimate (2)
Education		
Public Schools	$ 10,179	$ 10,915
Higher Education	2,696	2,901
Other Education	40	44
Total Education	**$ 12,915**	**$ 13,860**
Human Services		
Department of Social and Health Services	$ 6,804	$ 7,884
Federal Fiscal Relief—FMAP	(108)	0
Department of Corrections	1,261	1,390
Other Human Services	171	185
Total Human Services	**$ 8,128**	**$ 9,459**
Natural Resources and Recreation	$ 347	$ 367
Governmental Operations	426	456
Other Expenditures (3)		
Debt Service	$ 1,236	$ 1,417
Other Expenditures	620	392
Total Other Expenditures	**$ 1,856**	**$ 1,809**
TOTAL GENERAL FUND-STATE EXPENDITURES	**$ 23,672**	**$ 25,952**
Federal	$ 10,665	$ 11,486
Private/Local	600	329
TOTAL GENERAL FUND-STATE EXPENDITURES	**$ 34,937**	**$ 37,767**
Ending General Fund-State Balance	**$ 853**	**$ 1,453**

(1) Based on the 2003-05 Budget as amended by the 2004 and 2005 Supplemental Budgets that were passed by the Legislature and signed by the Governor.

(2) Based on the 2005-07 Budget as passed by the Legislature and signed by the Governor.

(3) Includes legislative, judicial and transportation agencies, as well as Debt Service and Retirement Contributions to LEOFF and Judges and Judicial Retirement System.

Note: Totals may not add due to rounding.

Source: Office of Financial Management

OUTLOOK FOR THE 2005-07 BIENNIUM

U.S. Economic Forecast

The September 2005 economic and revenue forecast was produced prior to the advance GDP estimate for the third quarter of 2005. According to the forecast, real GDP grew at a 3.4 percent rate in the third quarter of 2005, up slightly from 3.3 percent in the second quarter. Final sales of domestic product rose at a 3.5 percent rate in the third quarter, down sharply from 5.6 percent in the second quarter. The slowdown in final sales growth was primarily due to the foreign sector which was roughly neutral in the third quarter after adding about 1.1 percentage points to growth in the second quarter. Fixed investment growth also weakened in the third quarter to 4.2 percent from 9.6 percent in the second quarter. Consumer spending rose at a 3.3 percent rate in the third quarter, down slightly from 3.4 percent in the second quarter. Government consumption expenditures and gross investment increased at a 3.1 percent rate in the third quarter, up from 2.5 percent in the second quarter, mainly as a result of a 14.9 percent jump in federal civilian spending.

According to the forecast, payroll employment growth slowed to 1.4 percent in the third quarter from 1.9 percent in the second quarter due in part to Hurricane Katrina. Excluding the storm impact, the forecast for third quarter employment growth would have been 1.7 percent. The unemployment rate declined slightly from 5.10 percent in the second quarter to 5.00 percent in the third quarter. Inflation, as measured by the Consumer Price Index, increased to 5.0 percent in the third quarter of 2005 from 4.2 percent in the second quarter and 2.4 percent in the first quarter. The increase was entirely due to rising energy costs, however. Core inflation actually declined from 2.6 percent in the first quarter to 2.0 percent in the second quarter and 1.7 percent in the third quarter. Housing starts declined at a 4.2 percent rate from 2.044 million units in the second quarter to a still strong 2.023 million units in the third quarter while the mortgage rate edged up from 5.74 percent to 5.75 percent. On September 20 the Federal Open Market Committee raised its target for the federal funds rate by 25 basis points to 3.75 percent. Overall, the national forecast is very similar to the forecast adopted in September.

The U.S. economy had been on pace for a solid third quarter before hurricanes Katrina and Rita hit. The storms will take a bite off second-half 2005 GDP growth, but will add to 2006 growth as reconstruction spending seeps into the economy. Afterward, we expect the U.S. economy to downshift and begin growing at its “trend” rate. GDP growth is expected to slow to 3.5 percent this year from 4.2 percent in 2004. Slower growth is expected in the next two years as the recovery matures. The forecast calls for growth rates of 3.3 percent 2006 and 3.0 percent in 2007. Nonfarm payroll employment rose 1.1 percent in 2004 which was the first significant increase in four years. The forecast assumes employment growth will improve to 1.6 percent this year, slowing to 1.5 percent in 2006 and 1.2 percent in 2007. The unemployment rate also improved in 2004 for the first time in four years, declining to 5.53 percent from 5.99 percent in 2003. The unemployment rate is expected to decline again this year to 5.11 percent. Unemployment is expected to be little changed during the next two years with rates of 4.89 percent and 4.98 percent in 2006 and 2007. Inflation, as measured by the implicit price deflator for personal consumption expenditures, accelerated to 2.6 percent in 2004 from 1.9 percent in 2003 and 1.4 percent in 2002. Rising energy costs continue to boost overall inflation. Excluding food and energy, inflation rose to 2.0 percent in 2004 from 1.3 percent in 2003. Energy will add to inflation again this year and next year but will help restrain inflation in 2007 as energy prices finally decline. The forecast expects an inflation rate of 2.9 percent in 2005, declining to 2.5 percent and 2.2 percent 2006 and 2007. The forecast assumes three further 25-basis-point increases in the federal funds rate taking it to 4.50 percent on January 31, 2006.

Washington State Economic Forecast

The state’s employment growth rate decelerated to 1.8 percent in the third quarter from 2.9 in the second quarter, 3.1 percent in the first quarter, and 3.2 percent in the fourth quarter of 2004. The third quarter employment data reflect two partially offsetting anomalies, however. First, the Boeing-IAM labor dispute temporarily reduced employment by 5,300. Second, a problem with the seasonal adjustment of education employment temporarily raised reported employment by an estimated 3,000 jobs. Excluding these transitory impacts, employment rose at a moderate 2.2 percent rate in the quarter. Manufacturing employment, excluding the aerospace strike, rose 2.5 percent in the third quarter. Aerospace employment rose at a 12.3 percent rate, excluding the strike. Manufacturing employment other than aerospace, however, declined 0.5 percent. Every important private sector industry expanded in the third quarter. Perhaps signaling an end to the dot-com bust, information employment rose at a 4.7 percent rate in the quarter in spite of a lackluster 1.5 percent increase in software employment. Construction employment growth also remains very strong at 4.6 percent in the quarter. "Other services," education and health services, and leisure and hospitality rose 3.4 percent, 2.7 percent, and 2.6 percent in the third quarter. Trade, transportation, and utilities employment rose 2.4 percent and professional and business services employment rose 2.3 percent. Financial activities employment inched up 0.2 percent. In the public sector, state and local government employment jumped 3.8 percent, mostly as a result of the seasonal adjustment problem. Excluding that impact, which should be reversed in the fourth quarter, employment was up only 1.1 percent. Federal government employment declined at a 4.2 percent rate in the third quarter.

Washington's personal income in the second quarter of 2005 was $3.794 billion (1.7 percent) lower than the estimate made in September. The downward revision was mainly due to a historical revision to nonwage personal income, which was $3.102 billion (3.1 percent) below the September estimate in the second quarter. Total wages were $0.692 billion (0.6 percent) lower than expected in September. Software wages were $0.042 (0.9 percent) billion higher than expected but non-software wages were $0.734 (0.6 percent) billion lower.

The number of housing units authorized by building permit increased 6,500 in the third quarter of 2005 to 54,700 from 48,200 in the second quarter. Single family permits rose 3,000 to 41,300 while multi-family permits rose 3,500 to 13,400. Single family activity has not been this strong since the late 1970s.

The forecast also reflects Seattle consumer price data through August. After trailing the national average during 2002, 2003, and 2004, Seattle inflation jumped out ahead the U.S. in the first four months of 2005, rising at a seasonally adjusted annual rate of 7.2 percent compared to 4.8 percent for the U.S. city average while core inflation (excluding food and energy) rose 5.4 percent rate in Seattle and 2.6 percent for the U.S. city average. During the next four months, however, Seattle prices actually declined in spite of rising energy costs. As a result, for the first eight months of the year Seattle inflation is running at a 2.1 percent rate compared to 3.9 percent for the U.S. while core inflation is only 0.2 percent in Seattle compared to 2.0 percent for the nation.

The Boeing strike was too short to have any lasting impact on aerospace employment or the Washington economy in general. The Washington aerospace employment forecast incorporates the slightly stronger growth experienced through October which adds about 200 jobs. The trend growth rate through the end of 2005 has also been increased from 6,000 per year to 6,600 per year. The software wage forecast has been reduced to reflect the impact of a lower Microsoft stock price on stock option and stock award income. Software employment is expected to increase 4,100 from the third quarter of 2005 to the fourth quarter of 2007 compared to 3,400 in the September forecast.

Washington nonfarm payroll employment increased 1.7 percent in 2004 following a 0.1 percent rise in 2003 and declines in 2001 and 2002. The forecast continues to expect a relatively weak recovery due to the sluggish U.S. economy and only a modest upturn in aerospace. The forecast expects employment growth to improve to 2.7 percent this year. Employment growth is expected to retreat to 2.4 percent in 2006 and 2.1 percent in 2007. Washington personal income was temporarily boosted by nearly 3 percentage points in 2004 as a result of Microsoft's special dividend in November 2004. As a result of that dividend, Washington personal income growth jumped to 7.4 percent in 2004 from 2.0 percent in 2003. Excluding the special dividend, however, growth in 2004 would have been a more moderate 4.6 percent. Personal income growth is expected to slow in 2005 to 3.0 percent but this is also distorted by the one-time dividend. Excluding the special dividend, the forecast the forecast expects personal income growth to improve to 5.8 percent this year and 7.4 percent next year before slowing slightly to 6.9 percent in 2007. Washington housing activity remains very strong. Housing permits increased 7,300 in 2004 to 50,100 which is the highest annual total since 1979. The strength in housing has been mostly in the single family market which continues to benefit from low mortgage rates. Higher mortgage rates are expected to depress the single family market during the next three years. Partially offsetting this will be stronger population growth which should boost multi-family activity. The forecast expects housing permits to increase to 51,300 in 2005 before declining slightly to 49,600 in 2006 and 48,300 in 2007. The weak Washington economy has slowed inflation in the area in spite of soaring energy costs. Inflation, as measured by the Seattle Consumer Price Index declined in 2004 to 1.2 percent from 1.6 percent in 2003. The strengthening local economy should result in higher inflation in the next three years. The forecast expects inflation rates of 2.7 percent in 2005, 1.9 percent in 2006, and 2.2 percent in 2007.

Alternative Economic Forecasts

The Washington State Economic and Revenue Forecast Council also provided an optimistic forecast and a pessimistic forecast in November 2005.

Optimistic Forecast. Six assumptions distinguish the optimistic scenario from the baseline forecast. First, productivity is stronger. Underlying this assumption is the view that the information-driven technology boom, which appears to have accelerated in recent years, continues. Second, foreign economic growth is stronger. A stronger world economy boosts U.S. exports and strengthens domestic manufacturing. Third, business investment is stronger. Fourth, the federal government budget deficit is lower. Fifth, housing starts are stronger. And finally, the optimistic scenario assumes that oil prices decline to $43 per barrel by the end of 2007 rather than hovering around $60 as in the baseline. These assumptions produce a rosier outlook, with the economy growing about one percent per year faster than in the baseline during 2006 and 2007. Although economic growth and labor markets are stronger, inflation is lower because of the stronger dollar and the higher productivity gains. The lower inflation rate allows the Federal Reserve to keep the federal funds rate below the baseline value. Since productivity growth is higher, potential GDP is higher and remains so throughout the forecast period. Job growth is also stronger. Nonfarm employment is 950,000 higher than in the baseline at the end of 2006 and 1.7 million higher at the end of 2007. Because job growth is strong, the unemployment rate stays below its baseline rate over the forecast period. For Washington, the optimistic forecast assumes a more typical, vigorous aerospace employment expansion than the modest growth assumed in the baseline. Washington's wages also grow faster than in the baseline. The strong regional economy raises Seattle CPI inflation above the baseline forecast in the optimistic scenario in spite of strong productivity growth. The initial level of Washington personal income is also higher in the optimistic scenario and population growth is stronger. Construction employment continues to rise in the optimistic scenario rather than leveling off as in the baseline. By the end of the 2005-07 biennium, Washington nonagricultural employment is higher by 51.0 jobs than in the baseline forecast and Washington personal income is $10.4 billion higher. The optimistic scenario generated $845 million (3.2 percent) more revenue in the 2005-07 biennium than did the baseline forecast.

Pessimistic Forecast. The pessimistic alternative assumes that there is less spare capacity than thought, both globally and in the U.S. economy. It also assumes that the dollar weakens rapidly as foreign investors take fright at the spiraling trade deficit, and thus lose confidence in the dollar. Interest rates rise as foreign investors diversify away from the dollar, and the federal deficit widens relative to the baseline. The falling dollar adds to the upward pressure on inflation. The Fed responds by accelerating the pace of tightening. Despite the more aggressive tightening, the stock and bond markets both slip on signs that the Fed may have let inflation build up an unstoppable momentum. The Fed cannot permit this acceleration to continue, and so raises rates further in 2006. Between the higher interest rates and persistently high energy prices, consumer confidence suffers. Consumers rein in discretionary spending and the U.S. economy slows. At the same time, hiring lags, causing the unemployment rate to climb. The economy does not sink into recession in the pessimistic alternative, but merely fails to come as close to its potential as in the baseline, with GDP growth coming in 1.2 percentage point below the baseline rate in 2006 and 0.9 percentage points below the baseline in 2007. At the state level, the recovery in aerospace employment is much slower than in the baseline. Data revisions show that the initial level of Washington personal income is lower than was assumed in the baseline. Population growth is also slower in this scenario. Construction employment begins to decline again in the first quarter of 2006 rather than leveling off as in the baseline. Because of the weak economy, Washington wage growth is weaker than in the baseline forecast in spite of the higher inflation assumption in the national pessimistic forecast. Seattle inflation is initially stronger than in the baseline but also weakens after the first quarter of 2006. By the end of the 2005-07 biennium, Washington nonagricultural employment is 55,100 lower than the baseline forecast and Washington personal income is $8.4 billion lower. The pessimistic scenario produced $755 million (2.9 percent) less revenue in the 2005-07 biennium than did the baseline forecast.

Budgetary Outlook

For the 2003-05 Biennium, General Fund-State revenues are projected to be $23.389 billion, an increase of 10.6 percent from the 2001-03 Biennium, plus a carry-forward of $405 million. This figure includes $195 million for noneconomic changes for the estate and agrilink taxes, as well as $452 million in revenue from other funds that was deposited into the General Fund. The balance sheet has also been updated for $189 million in adjustments, which again are attributable to prior biennium recoveries and a one-time charge to the working capital reserve.

The operating budget for the 2003-05 Biennium calls for an overall expenditure level of $23.7 billion for General Fund-State, which is an increase of $1.1 billion or 4.2 percent over the 2001-03 Biennium. This is among the smallest of the biennial growth rates in the past decade, and is within the $23.91 billion expenditure limit imposed by Initiative 601.

In the 2003-05 Biennium, 54 percent of the General Fund-State budget will go to support public schools and higher education. Most of the increase in public school funding covers the increased cost of teacher and staff health benefits for increases in K-12 enrollment. Higher education funding provided for at least 1,800 student enrollment increases in public universities and colleges and increases in need grants.

The spending for human service delivery systems provided by the Department of Social and Health Services made up approximately 28 percent of the state budget. The largest program in the Human Services budget is the Medical Assistance Program, which comprised 30 percent of the Human Services budget in the 2003-05 Biennium.

For the 2005-07 Biennium, General Fund-State revenues are projected to be $26.3 billion, a 12.6 percent increase from the 2003-05 Biennium, plus a carry-forward of $853 million. This figure includes $354 million of new or revised revenue sources passed by the 2005 legislature, including an increase to the liquor liter tax, the extension of sales tax to warranties, an adjustment to the high-tech business and occupations tax credit, and a number of other small changes. Also included is $217 million in shift of revenue from other funds into the General Fund.

The operating budget for the 2005-07 Biennium contains an overall expenditure level of $25.95 billion for General Fund-State, which is an increase of $2.3 billion or 9.6 percent over the 2003-05 Biennium. This expenditure level is within the $26.04 billion expenditure limit imposed by Initiative 601.

In the 2005-07 Biennium, 53 percent of the General Fund-State budget will go to support public schools and higher education. Most of the public school funding covers the increased cost of teacher and staff health benefits for increases in K-12 enrollment. The higher education funding provided for at least 7,900 student enrollment increases in public two- and four-year colleges and universities, and increases in need grants.

The spending for human service delivery systems provided by DSHS makes up approximately 36 percent of the state budget. Washington's WorkFirst program has helped more than 153,000 people get off and stay off welfare since the program began in 1997. Welfare caseloads have dropped by 40 percent and the percentage of the state's population on welfare is at the lowest point in more than 30 years. Most program participants who go to work earn more than $8 an hour. The largest DSHS program is the Medical Assistance Program, which, at $3.1 billion, comprises 39 percent of the 2005-07 DSHS budget.

The 2005-07 Biennial Budget contains compensation increases for K-12 teachers and state employees, including salary cost-of-living increases ("COLAs"), partial salary survey implementation, pension rate increases, and health benefit rate increases. The COLAs are the first in four years for state employees and K-12 teachers. The 2005-07 Biennium also marks the effective date of collective bargaining and wider union representation among classified employees of state government.

The following tables provide the General Fund-State budget for the 2003-05 and 2005-07 Biennia.

2003-05 BIENNIUM
GENERAL FUND-STATE BUDGET
(Modified Accrual Basis)
(in Millions)

Beginning Fund Balance	$ 405
Revenue	
June 2003 Forecast	$ 22,295
2003 Legislative Changes	587
September 2003 Forecast	15
November 2003 Forecast	65
February 2004 Forecast	76
2004 Legislative Changes	(25)
June 2004 Forecast	186
September 2004 Forecast	106
November 2004 Forecast	70
March 2005 Forecast	58
June 2005 Forecast	109
September 2005 Forecast	(142)
November 2005 Forecast	(5)
2005 Legislative Changes	4
Changes in Reserves and Other Adjustments	631
Total Sources	**$ 24,435**
Total Expenditures	**$ 23,672**
Ending General Fund-State Balance	**$ 763**
Emergency Reserve Fund Account Balance	**0**
Additional Federal Funding (Assumed to Replace General Fund-State Appropriations)	**$ 100**
Less Local Government Assistance Appropriations	**$ (10)**
Revised Ending General Fund-State Balance	**$ 853**

Note: Totals may not add due to rounding.

Source: Office of Financial Management

2005-07 BIENNIUM
GENERAL FUND-STATE BUDGET
(Modified Accrual Basis)
(in Millions)

Beginning Fund Balance	$ 853
Revenue	
June 2005 Forecast	$ 25,031
September 2005 Forecast	645
November 2005 Forecast	305
2005 Legislative Changes	354
Changes in Reserves and Other Adjustments	217
Total Sources	**$ 27,405**
Total Expenditures	**$ 25,952**
Ending General Fund-State Balance	**$ 1,453**
Emergency Reserve Fund Account Balance	**0**
Revised Ending General Fund-State Balance	**$ 1,453**

Note: Totals may not add due to rounding.

Source: Office of Financial Management

State Transportation Budget

The Legislature passed the state transportation budget for the 2003-05 Biennium on April 26, 2003, and the Governor signed the bill on May 19, 2003. The total $4.8 billion budget bill contained funding for $2.9 billion in capital expenditures, including $2.6 billion for the Department of Transportation capital funding for roads, bridges, ferries, rail, and transit improvements. The bill also contained funding for the Washington State Patrol, the Department of Licensing and other transportation agencies.

The state gas tax historically has been pledged for debt service retirement of transportation bonds. An increase in the state gas tax to 31 cents per gallon went into effect on July 1, 2005.

The Legislature passed the state transportation budget for the 2005-07 Biennium on April 24, 2005, and the Governor signed the bill on May 9, 2005. The total $5.9 billion budget bill contained funding for $3.7 billion in capital expenditures, including $3.4 billion for the Department of Transportation capital funding for roads, bridges, ferries, rail, and transit improvements. The bill also contained funding for the Washington State Patrol, the Department of Licensing and other transportation agencies.

CAPITAL BUDGET AND STATE DEBT

State Capital Budget

The state's 2003-05 biennial capital budget adopted by the 2003 Legislature provided for $2.57 billion expenditures in new projects. Of this total, $1.35 billion in expenditures are to be funded from the sale of general obligation bonds that are subject to the state's statutory debt limit.

The 2003-05 biennial capital budget provides for $798 million for higher education projects, $540 million for K-12 education and $386 million for natural resource projects. Other capital funds are divided across the remaining state governmental functions. The 2004 Supplemental Capital Budget provided another $150 million in funding, primarily for higher education facilities and for projects that protect the state's water resources. The 2005 Supplemental Capital Budget provided an additional $213 million, most of which was additional funding from the Public Works Assistance Account program.

The state's 2005-07 biennial capital budget adopted by the 2005 Legislature provided for $3.27 billion expenditures in new projects. Of this total, $1.56 billion in expenditures are to be funded from the sale of general obligation bonds that are subject to the state's statutory debt limit.

The 2005-07 biennial capital budget provides for $1.400 billion for higher education projects, $900 million for K-12 education and $1.272 billion for natural resource projects. Other capital funds are divided across the remaining state governmental functions.

General Obligation Debt

General Obligation Debt Authority. The State Constitution and enabling statutes authorize by three different means the incurrence of state general obligation debt, the payment of which is secured by a pledge of the state's full faith, credit and taxing power:

(i) by the affirmative vote of 60 percent of both houses of the Legislature, without voter consent (in which case the amount of such debt is generally but not always subject to both constitutional and statutory limitations; see "General Obligation Debt Limitations" below);

(ii) by the affirmative vote of 50 percent of both houses of the Legislature and a majority of the voters voting thereon (in which case the amount of the debt so approved is not subject to other constitutional limitations, but is subject to statutory limitations; see "General Obligation Debt Limitations" below); or

(iii) by a body designated by statute (currently the Committee) without limitation as to amount, without approval of the Legislature (except as to appropriation of the sums borrowed) and without the approval of the voters; however, such debt:

  (a) may be incurred only to meet temporary deficiencies of the State Treasury, to preserve the best interests of the state in the conduct of the various state institutions, departments, bureaus, and agencies during each fiscal year;

  (b) must be discharged, other than by refunding, within 12 months of the date of incurrence;

  (c) may be incurred only to provide for appropriations already made by the Legislature; or

  (d) may be incurred to refund outstanding obligations of the state.

The State Constitution also permits the state to incur additional debt to repel invasion, suppress insurrection or to defend the state in war.

General Obligation Debt Limitations. With certain exceptions noted below, the amount of state general obligation debt which may be incurred by the means described in the section entitled "General Obligation Debt Authority" above is limited by constitutional and statutory restrictions. The limitations in both cases are imposed by prohibiting the issuance of new debt if the new debt would cause the maximum annual debt service on all thereafter outstanding general obligation debt to exceed a specified percentage of the arithmetic mean of general state revenues for the preceding three fiscal years. These are limitations on the incurrence of new debt and are not limitations on the amount of debt service which may be paid by the state in future years.

"General state revenues" is defined for purposes of the constitutional limitation as including all state money received in the State Treasury from each and every source whatsoever, with certain exceptions that include (i) fees and revenues derived from the operation of any facility; (ii) earmarked gifts, grants, donations, and aid; (iii) money for retirement system funds and performance bonds; (iv) money from trust funds, proceeds from sale of bonds or other indebtedness; and (v) taxes levied for specific purposes. For purposes of the statutory debt limitation, "general state revenues" also includes (i) the state lottery revenues, and (ii) revenues deposited in the state general fund and the student achievement fund that are derived from property taxes levied by the state for the support of common schools.

The constitutional and statutory limitations, which are overlapping, are summarized as follows:

(i) *The Constitutional Limitation*. Under Article VIII, Section 1 of the State Constitution, new general obligation debt may not be issued if the new debt would cause maximum annual debt service on all thereafter outstanding general obligation debt to exceed nine percent of the arithmetic mean of general state revenues for the preceding three fiscal years. Excluded from the calculation are the following types of general obligation debt:

(a) debt payable primarily from excise taxes levied on motor vehicle fuels, income received from the investment of the permanent common school fund and revenue received from license fees on motor vehicles;

(b) debt which has been refunded;

(c) debt issued after approval of both houses of the Legislature and a majority of those voting in a general or special election;

(d) debt issued to meet temporary deficiencies in the State Treasury (described in "General Obligation Debt Authority" above);

(e) debt issued in the form of bond anticipation notes;

(f) debt issued to fund or refund debt of the State Building Authority (no longer in existence);

(g) debt issued to pay "current expenses of [S]tate government;"

(h) debt payable solely from the revenues of particular public improvements (revenue debt of the state), and

(i) any state guarantee of voter-approved general obligation debt of school districts in the state.

(ii) *The Statutory Limitation*. Under chapter 39.42 RCW, new general obligation debt may not be issued if the new debt would cause maximum annual debt service on all thereafter outstanding general obligation debt to exceed seven percent (as contrasted with the nine percent limitation in the State Constitution) of the arithmetic mean of general state revenues for the preceding three fiscal years.

The percentage limitation and the general obligation debt excluded from calculation of the limitation under this state statute have changed from time to time. The types of general obligation debt currently excluded from the calculation are the same as those excluded from the calculation under the constitutional limitation with the following exceptions:

(a) general obligation debt issued after approval of both houses of the Legislature and a majority of the voters, which is included rather than excluded as described above under "The Constitutional Limitation;"

(b) general obligation debt issued prior to July 1, 1993, pursuant to statute which requires that the State Treasury be reimbursed for the full debt service on such debt from money other than general state revenues or from special excise taxes imposed under chapter 67.40 RCW ("reimbursement bonds");

(c) general obligation debt issued after July 1, 1993, pursuant to statute which requires that the State Treasury be reimbursed for the full debt service on such debt from (1) moneys outside the State Treasury (except for higher education operation fees); (2) higher education building fees; (3) indirect cost recovered from federal grants and contracts; and (4) University of Washington hospital patient fees;

(d) general obligation debt issued to finance certain improvements to the state capitol east plaza garage pursuant to RCW 43.99Q.070;

(e) general obligation debt issued to finance the rehabilitation of the state legislative building to the extent such debt is paid from the capitol building construction account pursuant to RCW 43.99Q.140(2)(b); and

(f) general obligation debt issued to finance transportation projects pursuant to Chapter 147, Laws of 2003, section 7.

Current General Obligation Debt Capacity. By applying the statutory limitation on general obligation debt, which is currently the more restrictive of the constitutional and statutory limitations, the state's estimated general obligation debt capacity (excluding Committee-authorized short-term debt described above) is calculated as follows:

Estimated arithmetic mean of general state revenues for fiscal years ending June 30, 2003, 2004, and 2005 (1)	$	11,000,725,954
7% of such arithmetic mean (maximum annual debt service on general obligation debt to be outstanding may not exceed this sum)	$	770,050,817
Maximum annual debt service on outstanding general obligation debt (9/21/2005)	$	657,000,832
Uncommitted portion of debt service limitation (9/21/2005)	$	113,049,985
Remaining state general obligation principal debt capacity after sale of current and projected issues (assuming a 25-year amortization and an interest rate of 6.00% on future issues) (2)	$	1,445,158,216

(1) Preliminary, subject to change. The arithmetic means of general state revenues for fiscal years ending a) June 30, 2002, 2003, and 2004, b) June 30, 2001, 2002, and 2003, c) June 30, 2000, 2001, and 2002, d) June 30, 1999, 2000, and 2001, e) June 30, 1998, 1999, and 2000, f) June 30, 1997, 1998, and 1999, and g) June 30, 1996, 1997, and 1998, were $9,932,495,848.84, $9,129,881,312.38, $8,885,895,256, $8,655,884,795, $8,305,755,187, $7,918,308,401, and $7,559,859,280, respectively. Source: "Certification of the Debt Limitation of the State of Washington" for fiscal years 1999 through 2004.

(2) The amount of debt that can be issued under this debt limitation calculation is subject to numerous factors, including state revenues, debt structure and interest rates, and may vary over time.

Use of Short-Term General Obligation Debt Authority (Certificates of Indebtedness and Bond Anticipation Notes). Chapter 39.42 RCW and the respective bond acts of the state delegate to the Committee the authority to issue, in the name of the state, temporary notes in anticipation of the sale of bonds. Pursuant to statutory authority and resolution of the Committee, such notes are general obligations of the state. Principal of and interest on such notes are excluded from the constitutional and statutory debt limitations. The state has no bond anticipation notes currently outstanding.

Article VIII of the State Constitution and chapter 39.42 RCW provide for the issuance of certificates of indebtedness to meet temporary deficiencies in the State Treasury. Such indebtedness must be retired other than by refunding within twelve months of the date of issue. Principal and interest on certificates of indebtedness is excluded from constitutional and statutory debt limitations. The state has no certificates of indebtedness currently outstanding and does not anticipate any external short-term borrowing during the current biennium.

Motor Vehicle Fuel Tax Obligations

As of September 21, 2005, there will be outstanding $2,600,503,801 motor vehicle fuel tax bonds secured by a pledge of, and first payable from, excise taxes levied against motor vehicle and special fuels. Additionally, these bonds are secured by the full faith, credit and taxing power of the state. Such bonds are not subject to the constitutional or statutory debt limitation.

Motor Vehicle Fuel Tax Rates. Chapter 49, Laws of 1983, 1st Ex. Sess., established a motor vehicle fuel tax at a fixed cents-per-gallon rate. Effective April 1, 1990, the fuel tax was raised to 22 cents per gallon from 18 cents. Effective April 1, 1991, the fuel tax was raised to 23 cents per gallon. Effective July 1, 2003, the fuel tax was raised to 28 cents per gallon. The State Legislature enacted Engrossed Substitute Senate Bill 6103, Chapter 314, Laws of 2005 (ESSB 6103) during its 2005 regular session. Among other things, ESSB 6103 provides for incremental increases in the tax rate on motor vehicle fuels and special fuels that total nine and a half cents per gallon over a period of four years. The initial increase in the tax rate for motor vehicle fuels and special fuels of three cents per gallon (from 28 cents per gallon to 31 cents per gallon) became effective on July 1, 2005. The tax rate for both types of fuels would increase an additional three cents per gallon on July 1, 2006, two cents per gallon on July 1, 2007, and one and one-half cents per gallon on July 1, 2008.

The net tax amounts (after payment of refunds and administrative expenses) accruing from the increases in tax rates enacted by ESSB 6103 for motor vehicle and special fuels are to be distributed to certain local governments and to the state. The state is to receive 83.3334 percent of the net tax amounts from each of the tax rate increases effective on July 1, 2005, and July 1, 2006, and 100 percent of the net tax amounts from the tax rate increases effective on July 1, 2007, and July 1, 2008. The net tax amounts distributable to the state are to be deposited in the Transportation Partnership Account in the Motor Vehicle Fund. Amounts deposited in the Transportation Partnership Account must be used only for projects or improvements identified as 2005 transportation partnership projects or improvements in the omnibus transportation appropriations act, Chapter 313, Laws of 2005, including any principal and interest on bonds authorized for those projects or improvements.

Revenue Available for Debt Service. The following table presents the state's motor vehicle fuel excise tax collection experience at various rates per gallon, including a revenue projection based upon the tax rate of 31 cents per gallon tax effective July 1, 2005, and the allocations of excise tax pledged for bond principal and interest payments.

	Revenue Pledge	**County-City Allocation[1]**	**State Allocation [2]**
July 1, 1991 – June 30, 1992	$610,681,244	$81,153,690	$305,143,075
July 1, 1992 – June 30, 1993	596,015,283	79,888,937	297,161,376
July 1, 1993 – June 30, 1994	614,890,069	82,418,884	306,571,969
July 1, 1994 – June 30, 1995	615,525,077	82,503,999	306,888,571
July 1, 1995 – June 30, 1996	655,427,980	87,887,898	327,133,159
July 1, 1996 – June 30, 1997	672,095,589	89,661,476	336,186,110
July 1, 1997 – June 30, 1998	688,474,782	91,846,557	344,379,077
July 1, 1998 – June 30, 1999	712,559,355	95,059,580	356,426,320
July 1, 1999 – June 30, 2000	721,684,773	96,276,797	365,130,833
July 1, 2000 – June 30, 2001	723,945,995	96,578,457	366,272,623
July 1, 2001 – June 30, 2002	720,305,001	96,092,728	364,429,773
July 1, 2002 – June 30, 2003	732,805,981	97,760,429	370,749,618
July 1, 2003 – June 30, 2004	882,671,375	99,866,758	512,808,590
July 1, 2004 – June 30, 2005 [3]	905,846,435	99,265,533	538,209,753
July 1, 2005 – June 30, 2006 [3]	996,637,685	100,397,089	611,790,565

(1) Allocation of excise tax revenues first used for payment of debt service for county-city urban program (RCW 47.26.404, 47.26.4252, 47.26.4254, and 47.26.505).

(2) Allocation of excise tax revenues first used for payment of debt service for ferry vessels, State Route 90 and the state highway bonds.

(3) Department of Transportation forecast (June 2005).

Revenue Pledge and Distribution Percentages. Each legislative act authorizing the issuance and sale of motor vehicle fuel tax bonds provides that the principal of and interest on such bonds are secured by a pledge of the excise taxes levied on motor vehicle and special fuels imposed by chapters 82.36 and 82.38 RCW (formerly by chapters 82.36 and 82.40 RCW). That pledge constitutes a charge against the revenues from such motor vehicle and special fuels excise taxes equal to the charge of any other general obligation bonds of the state that have been and may hereafter be authorized that also pledge motor vehicle and special fuels excise taxes for their payment. By statutory provision the Legislature has covenanted to continue to levy that excise tax in amounts sufficient to pay, when due, the principal and interest on all of those bonds issued under the respective legislative authorizations.

All motor vehicle fuel tax general obligation bonds of the state are further secured by a pledge of the full faith, credit and taxing power of the state. The act authorizing the issuance of refunding bonds requires, as to bonds to be refunded that are secured by motor vehicle fuel taxes, that the refunding bonds be secured by the same taxes in addition to the pledge of the state's full faith and credit and taxing power.

The Legislature has established a statutory scheme for the distribution and expenditure for various purposes of specified percentages of motor vehicle and special fuels excise taxes received in the motor vehicle fund. However, the Legislature has provided that nothing in those provisions may be construed to violate the terms and conditions of any highway construction bond issues authorized by statute and whose payment is by such statute pledged to be paid from any excise taxes on motor vehicle and special fuels. With the pledge of the aggregate of motor vehicle and special fuels excise taxes for payment of the principal of and interest on all motor vehicle fuel tax bonds currently authorized, that statutory scheme can be characterized as a mandate as to which portion of such excise taxes should first be used to transfer funds to the Highway and Ferry Bond Retirement Funds.

Sources of Repayment

The Legislature is obligated to appropriate money for state debt service requirements. Appropriations providing for the payment of bond principal and interest requirements on each series of bonds normally are included in the omnibus appropriation act or occasionally in another appropriation act of each biennial session. In addition, it has been the practice to provide in each omnibus appropriation act an appropriation of such additional money as may be required to satisfy bond covenants and laws for reserves, surplus funds and other "set-asides."

Generally, each bond statute provides that on or before June 30 of each year the Committee shall certify to the State Treasurer the amount required for payment of bond principal and interest for the ensuing fiscal year. For bonds authorized before the First Extraordinary Session of the 1977 Legislature on July 1 (in some instances on June 30), the State Treasurer was required to transfer those funds from any state general revenues, component or dedicated revenues, depending on the revenue pledge, to the specified bond fund. For bonds authorized during the 1977 First Extraordinary Legislative Session and for all subsequent authorizations made prior to the 1989 Legislative Session, the State Treasurer must transfer the funds necessary to pay debt service to the respective bond redemption funds not less than 30 days prior to the principal or interest payment date. For bonds authorized during and since the 1989 Legislative Session, the State Treasurer must transfer the funds necessary to pay debt service to the respective bond redemption funds on the principal or interest payment date.

The statutes(s) authorizing the bonds and other general obligations of the state require the Committee to certify annually the amount needed to provide for payment of debt service and require the State Treasurer to deposit "general state revenues" in such amount into the General Obligation Bond Retirement Fund from time to time. The term "general state revenues" is defined in Article VIII in the State Constitution. Not all money deposited in the General Fund-State constitutes general state revenues.

The following table presents general state revenues (statutory) for fiscal years since 1999:

GENERAL STATE REVENUES
STATUTORY
(in Millions)

Fiscal Year	General State Revenues
2004	$ 11,457.616
2003	9,397.528
2002	8,942.343
2001	9,049.773
2000	8,655.570
1999	8,252.312

Some general obligation bond statutes provide that the General Fund-State will be reimbursed from discrete revenues which are not considered general state revenues. For example, tuition fees charged by institutions of higher education must reimburse the General Fund-State for payment of debt service for a number of higher education construction bonds. Other similar reimbursement requirements apply to hospital patient fees (for University of Washington Hospital Construction Bonds) and lease-rental proceeds (for Washington State University Research Center Bonds). All of these required reimbursements have been made to date.

In addition, special hotel-motel tax proceeds collected in King County are pledged to reimburse the General Fund-State debt service payments for the 1983 State Convention and Trade Center Bonds.

For motor vehicle fuel tax bonds, at least one year prior to the date any interest is due and payable on those bonds or prior to the maturity date of any bonds, the Committee estimates, subject to the provisions of the pledge of revenue, the percentage of the monthly receipts of the motor vehicle fund resulting from collection of excise taxes on motor vehicle and special fuels that will be necessary to meet interest or bond payments when due. Each month as such funds are paid into the Motor Vehicle Fund, the State Treasurer must transfer such percentage of the monthly receipts from excise taxes on motor vehicle and special fuels in the Motor Vehicle Fund to the Highway Bond Retirement Fund and the Ferry Bond Retirement Fund, the latter of which is to be used for payment of the principal of and interest on the state ferry bonds when due. If in any month it appears that the estimated percentage of money so transferred is insufficient to meet the requirements for interest and bond retirement, the State Treasurer must notify the Committee, and the Committee must adjust its estimates so that all requirements for interest and principal of all bonds issued will be fully met at all times.

The state retains and expects to continue to retain a minimum surplus of funds in the Highway Bond Retirement Fund pending the development of clear estimates of the consequences of energy conservation measures and more definite Department of Transportation revenue projections.

With respect to state ferry bonds, concurrent with the distribution of motor vehicle and special fuel tax revenue to the Ferry Bond Retirement Fund, the State Treasurer must transfer a like amount of funds from the Puget Sound Capital Construction Account to the Motor Vehicle Fund.

State Bonds Outstanding

The following table summarizes as of September 21, 2005, the state's general obligation bonds and general obligation bonds secured by motor vehicle fuel tax revenue.

General Obligation Bonds	$ 7,648,307,072
Motor Vehicle Fuel Tax General Obligation	2,600,503,801
	$ 10,248,810,874

An additional $2,871,438,029 principal amount of general obligation bonds and $7,935,256,199 principal amount of motor vehicle fuel tax general obligation bonds will be authorized but unissued as of September 21, 2005. Issuance of additional general obligation bonds is subject to constitutional and statutory debt limitations. By statute, additional general obligation bonds (with certain exceptions) may not be issued if, after giving effect thereto, maximum annual debt service would exceed seven percent of the three-year average of general state revenues. State motor vehicle fuel tax general obligation bonds and certain other bonds are not subject to that limitation.

The maximum annual debt service on all outstanding general obligation bonds is covered 14.76 times by general state revenues of $11.458 billion for the fiscal year ending June 30, 2004. Coverage of the projected annual debt service on all outstanding motor vehicle fuel tax general obligation bonds is 4.34 times based upon estimated gasoline tax revenues of $905.846 million for the fiscal year ending June 30, 2005.

Schedules

Schedules Nos. 1 through 3 show debt service on outstanding and proposed general obligation bonds and motor vehicle fuel tax bonds and analyses of the various types of revenues pledged to secure these bonds.

SCHEDULE NO. 1 (Combined — General State Revenues and Components, Motor Vehicle Fuel Tax, and Other Revenues)

TOTAL BONDS OUTSTANDING AND SEPTEMBER 21, 2005 BOND OFFERING

Fiscal Year Ending June 30th	Outstanding 9/21/2005 (1) Principal	Outstanding 9/21/2005 (1) Interest (4)	September 21, 2005 Bond Offering (2) Principal	September 21, 2005 Bond Offering (2) Interest	Total (3)
2006	$ 215,725,000	$ 253,053,884	$ -	$ 1,791,957	$ 470,570,841
2007	488,138,126	479,043,075	-	2,580,419	969,761,620
2008	507,946,495	454,703,096	-	2,580,419	965,230,010
2009	506,110,442	434,434,824	-	2,580,419	943,125,685
2010	486,932,068	414,594,018	-	2,580,419	904,106,505
2011	466,166,505	393,868,734	-	2,580,419	862,615,657
2012	453,524,996	376,595,597	-	2,580,419	832,701,012
2013	476,273,025	352,017,013	335,000	2,580,419	831,205,456
2014	497,594,330	327,345,267	855,000	2,567,019	828,361,616
2015	522,501,039	313,869,326	880,000	2,532,819	839,783,184
2016	535,561,906	305,184,903	1,355,000	2,497,619	844,599,428
2017	532,539,398	303,600,101	1,990,000	2,443,419	840,572,918
2018	511,242,936	279,249,049	2,250,000	2,363,819	795,105,804
2019	490,913,956	259,623,697	2,505,000	2,273,819	755,316,472
2020	472,694,795	243,826,774	2,750,000	2,170,488	721,442,057
2021	427,788,597	196,706,410	2,955,000	2,057,050	629,507,056
2022	408,773,166	156,748,857	3,305,000	1,931,463	570,758,485
2023	388,362,665	140,121,992	3,610,000	1,791,000	533,885,657
2024	370,920,048	123,840,059	3,825,000	1,610,500	500,195,607
2025	334,611,412	109,436,388	4,180,000	1,419,250	449,647,051
2026	307,279,233	94,655,659	4,325,000	1,210,250	407,470,141
2027	261,935,154	81,436,606	4,500,000	994,000	348,865,760
2028	205,845,733	71,731,872	4,830,000	769,000	283,176,605
2029	175,679,100	65,256,525	5,180,000	527,500	246,643,125
2030	115,420,749	58,442,501	5,370,000	268,500	179,501,750
2031	33,330,000	833,250	-	-	34,163,250
	$ 10,193,810,874	$ 6,290,219,476	$ 55,000,000	$ 49,282,401	$ 16,588,312,752

Note: Totals may not add due to rounding.

	Principal	Interest
(1) **Outstanding Bonds by Revenue Pledge**		
(a) General State Revenues	7,648,307,072	4,420,496,026
(b) Motor Vehicle Fuel Tax	2,545,503,801	1,869,723,450
Total Bonds Outstanding	$ 10,193,810,874	$ 6,290,219,476
(2) **September 21, 2005 Bond Offering**		
(a) Series 2006C, dated 9/21/2005	$ 55,000,000	$ 49,282,401
Total September 21, 2005 Offering	$ 55,000,000	$ 49,282,401
(3) **Total Bonds Outstanding Following September 21, 2005 Offering**	$ 10,248,810,874	$ 6,339,501,878

(4) Interest payments are only estimates and are subject to change from time to time as market conditions change.

SCHEDULE NO. 2

SUMMARY - DEBT STRUCTURE BY REVENUE PLEDGE

General Obligation [1]

	6/30/2001	6/30/2002	6/30/2003	6/30/2004	6/30/2005	9/21/2005 [2]
Outstanding						
General State Revenues and Components						
General State Revenues	$ 6,540,745,000	$ 6,786,803,651	$ 6,827,099,728	$ 7,215,204,278	$ 7,575,311,302	$ 7,648,307,072
Retail Sales Tax Revenue	2,485,000	1,490,000	445,000	- - - - - -	- - - - - -	- - - - - -
Subtotal	$ 6,543,230,000	$ 6,788,293,651	$ 6,827,544,728	$ 7,215,204,278	$ 7,575,311,302	$ 7,648,307,072
Motor Vehicle Fuel Tax Revenue	$ 1,135,885,000	$ 1,395,980,000	$ 1,720,296,935	$ 2,113,536,136	$ 2,404,758,801	$ 2,600,503,801
Total - Outstanding	$ 7,679,115,000	$ 8,184,273,651	$ 8,547,841,664	$ 9,328,740,413	$ 9,980,070,103	$ 10,248,810,874
Annual Debt Service Requirements						
Fiscal Year	$ 789,213,368	$ 825,972,401	$ 836,219,533	$ 827,723,419	$ 896,463,314	$ 942,692,217
Authorized -- Unissued						
General State Revenues	$ 1,697,723,029	$ 1,196,003,029	$ 2,033,548,029	$ 2,446,723,029	$ 3,165,528,029	$ 2,871,438,029
Motor Vehicle Fuel Tax Revenue	2,253,275,000	1,915,200,000	1,514,793,065	3,655,958,864	3,087,256,199	7,935,256,199
Total - Unissued	$ 3,950,998,029	$ 3,111,203,029	$ 3,548,341,094	$ 6,102,681,893	$ 6,252,784,228	$ 10,806,694,228
Issued (New Money and Refunding)						
Fiscal Year	$ 1,345,245,000	$ 1,017,470,000	$ 1,528,646,935	$ 1,624,334,200	$ 1,523,297,666	$ 1,007,260,000

(1) No limited obligation debt is outstanding or authorized.
(2) Includes current offering dated September 21, 2005.

Note: Totals may not add due to rounding.

SCHEDULE NO. 3

TOTAL DEBT SERVICE REQUIREMENTS [1]
by Pledge of Revenues

Fiscal Year Ending June 30th	General State Revenues (or Components)	Motor Vehicle Fuel Tax Revenues	Total Principal	Total Interest	Total Debt Service Requirements
2006	$759,853,284	$182,838,933	$475,484,229	$467,207,988	$942,692,217
2007	776,113,305	193,648,315	488,138,126	481,623,494	969,761,620
2008	765,915,784	199,314,226	507,946,495	457,283,515	965,230,010
2009	739,505,004	203,620,681	506,110,442	437,015,243	943,125,685
2010	707,077,829	197,028,676	486,932,068	417,174,437	904,106,505
2011	672,124,033	190,491,625	466,166,505	396,449,152	862,615,657
2012	648,738,142	183,962,870	453,524,996	379,176,016	832,701,012
2013	642,991,136	188,214,321	476,608,025	354,597,432	831,205,456
2014	633,512,179	194,849,437	498,449,330	329,912,286	828,361,616
2015	645,178,411	194,604,773	523,381,039	316,402,145	839,783,184
2016	644,110,664	200,488,765	536,916,906	307,682,522	844,599,428
2017	632,632,924	207,939,994	534,529,398	306,043,520	840,572,918
2018	586,727,984	208,377,819	513,492,936	281,612,867	795,105,804
2019	546,489,578	208,826,893	493,418,956	261,897,516	755,316,472
2020	513,305,167	208,136,890	475,444,795	245,997,261	721,442,057
2021	430,875,303	198,631,753	430,743,597	198,763,460	629,507,056
2022	374,856,547	195,901,938	412,078,166	158,680,319	570,758,485
2023	349,736,297	184,149,360	391,972,665	141,912,992	533,885,657
2024	322,124,469	178,071,138	374,745,048	125,450,559	500,195,607
2025	271,862,344	177,784,707	338,791,412	110,855,638	449,647,051
2026	232,178,281	175,291,860	311,604,233	95,865,909	407,470,141
2027	188,531,625	160,334,135	266,435,154	82,430,606	348,865,760
2028	146,082,250	137,094,355	210,675,733	72,500,872	283,176,605
2029	119,785,000	126,858,125	180,859,100	65,784,025	246,643,125
2030	71,205,500	108,296,250	120,790,749	58,711,001	179,501,750
2031	20,464,125	13,699,125	33,330,000	833,250	34,163,250
Total	$12,441,977,163	$4,618,456,964	$10,508,570,103	$6,551,864,024	$17,060,434,127

(1) Includes current offering dated September 21, 2005.

Note: Totals may not add due to rounding.

SELECTED DEBT RATIOS

Debt Ratios

Year		State Debt Per Capita	State Debt/ Personal Income (Percentage)	Total Debt Service/ Personal Income (Percentage)	State Debt/ Market Value Taxable Property (Percentage)
2001	$	1,286.49	3.97%	0.43%	1.56%
2002		1,389.88	4.23%	0.42%	1.58%
2003		1,460.84	4.37%	0.41%	1.58%
2004*		1,500.38	4.24%	0.41%	1.58%
2005*		1,638.00	4.58%	0.42%	1.75%

Factors for the Debt Ratios

Year	Population (1) (000)		Personal Income (2) (000,000)		Debt Service (3) (000)		Market Value Taxable Property (4) (000)		State Debt (5) (000)
2001	5,974.90	$	193,498	$	825,972	$	492,681,068	$	7,686,649
2002	6,041.70		198,371		836,220		532,296,068		8,397,260
2003	6,098.30		203,890		827,723		563,600,366		8,908,653
2004*	6,167.80		218,291		896,463		585,655,515		9,254,055
2005*	6,256.90		223,855		942,692		585,655,515		10,248,811

(1) Population -- Office of the Forecast Council, "Washington Economic and Revenue Forecast June 2005," Table A5.1.

(2) Personal Income -- Office of the Forecast Council, "Washington Economic and Revenue Forecast June 2005," Table A3.3.

(3) Debt Service -- Reported by the State Finance Committee for the ensuing fiscal year.

(4) True and fair market value (100%) as reported by the Department of Revenue for state taxes due and payable in calendar years 2001 through 2004 -- Department of Revenue, "Property Tax Statistics 2004," Table 25. Under current law, business inventories are exempt from any property tax.

(5) State Debt -- Reported by the Office of State Treasurer for December 31 each year. Outstanding as of September 21, 2005.

* Estimate.

State Bonded Debt by Source of Payments

General Obligation		
Payable from General State Revenues	$6,533,865,712 (1)	
First Payable from Other Sources	3,714,945,162 (2)	
Limited Obligation	0	$10,248,810,874

	General Obligation Debt: Payable From General State Revenues	General Obligation Debt: First Payable from Other Sources	Total State Bonded Debt
Debt to True Market Value...........................	1.12%	0.63%	1.75%
Per Capita Debt..	$1,081.46	$614.88	$1,696.35

(1) Outstanding bonds as of September 21, 2005.

(2) Certain state general obligation bonds are payable first from sources other than general state revenues ($1,114,441,360 from tuition fees, patient fees, admissions taxes, parking taxes, certain King County sales and use taxes, or hotel and motel taxes) and are additionally full faith and credit obligations of the state.

OTHER OBLIGATIONS

Workers' Compensation Program

The Workers' Compensation Program insures approximately 70 percent of the work force in the state, excluding self-insured employers and their employees, against work-related accidents and medical claims. The program has three main components: Accident, Medical Aid and Supplemental Pension. Accident Fund premiums are paid by employers while premiums for the Medical Aid and Supplemental Pension Funds are shared equally by employers and employees. A separate pension fund sufficient to pay future pension obligations is established in the Accident Fund and not through separate premium assessments. The Supplemental Pension component covers both state fund and self-insured employees. The Accident, Medical Aid and Pension components are designed to be self-sustaining; assets are accumulated to fund future benefits.

The Supplemental Pension Fund was adopted by the Legislature in 1973 to provide inflation adjustment payments for time lost for the temporarily disabled and pension benefits for the permanently disabled. This plan operates on a current, "pay-as-you-go" basis. GAAP formerly required those liabilities be recorded as long-term debt and allowed expected employer and employee contributions to be shown as an asset. GASB now requires the Supplemental Cost of Living Benefit to be characterized as an obligation of the Workers' Compensation Fund, a special enterprise fund, but does not permit employer and employee future contributions to be shown as an offsetting asset. This accounting change has no impact on the fund's liability to pay supplemental cost of living benefits, nor does it affect its ability to make those payments. The potential future liability of the fund to pay all claims for Supplemental Cost of Living Benefits for all employees is estimated to be $4.5 billion; however, the state's obligation to its own employees is substantially lower, and the state anticipates contributions from the private sector will be sufficient to satisfy all liabilities for nonpublic employees.

Certificates of Participation/Financing Contracts

The following table displays outstanding state certificates of participation/financing contracts as of August 31, 2005.

	Outstanding	2005-2007 Debt Service Requirement	Final Maturity
Big Bend, Clark, Spokane, SPSC, Walla Wall CCs, 2004A	$ 13,130,000	$ 2,509,835	2024
The Evergreen State College, Childcare Center, 2003	1,025,000	713,991	2008
Washington State Liquor Control Board, 1996	9,415,000	5,270,383	2010
Master Installment Program -- RE, 1993	10,140,000	3,756,325	2016
DOC, 2005, Tumwater and Airway Heights	9,350,000	864,385	2025
WSU, Consolidated Information Center, 1996 Taxable	6,555,000	1,605,523	2017
DOE Refunding 2003B	25,715,000	2,280,975	2016
UW, Sandpoint Phase 2B, 2001D	3,195,000	552,173	2022
Highline Community College, RE-2003F	11,945,000	1,831,388	2023
UW, McCarty-Lander, 2001C	3,985,000	1,192,255	2013
Quarterly Pooled Financings; since 2004	66,750,004	25,943,071	2019
LOCAL Real Property	4,805,276	1,387,639	2017
South Puget Sound Community College, 1999	4,140,000	897,598	2020
Equipment Series, Competitive; since 1997	46,542,568	27,187,710	2015
GA, Yakima Building Project, 1999B	7,080,000	1,460,130	2019
UW, Sand Point Bldg 5 Phase IIC 2002E	2,525,000	401,208	2023
CWU, Edmonds, 2002D	4,790,000	770,605	2023
Whatcom, Columbia Basin and Yakima CC, 2000A	4,325,000	950,305	2020
GA, Olympia Capitol Court and Federal Building, 1999A	8,895,000	1,435,671	2022
Pierce College, 1998 - Steilacom Classroom Building	360,000	194,194	2008
Tacoma, Peninsula, Green River and Whatcom CCs, 2001A	4,860,000	1,660,678	2017
UW, Sand Point Bldg 29, 2002A	4,355,000	741,680	2022
Veterans Affairs, 2001	3,275,000	737,148	2016
DOT, Southwest Regional Complex, 1999	0	2,796,885	2005
DOL, WSP, Vancouver and Union Gap Project, Series 1998	5,655,000	1,117,914	2018
Washington State Convention and Trade Center	166,940,000	28,219,860	2018
DOE Refunding, 2001	34,810,000	11,677,125	2012
Parks and Recreation Commission, 1996A	75,000	79,206	2006
Edmonds CC - Music Building, 2000C	3,425,000	709,134	2018
GA, Isabella Bush Record Center, 2002	3,590,000	585,179	2023
Whatcom Community College, 1997 - Child Care Center	595,000	164,421	2013
Washington State Patrol, 1997 - Port Angeles Office	350,000	122,698	2012
Bellingham Technical College Classroom Additions, 1998	175,000	92,320	2008
UW, Husky Den, 2001B	5,425,000	955,453	2022
UW, Sandpoint Phase 2, 2001A	1,395,000	242,830	2021
DOC, 1998 Kennewick Work Release Facility and Monroe Dairy	1,386,775	764,999	2009
Bellevue Community College, RE-2003C	14,940,000	2,308,655	2023
Bellevue, Spokane Falls, Shoreline and Edmonds CCs, 2001B	4,850,000	1,940,350	2015
LOCAL Real Property B - Taxable	230,000	74,875	2016
Master Installment Program -- EQ, 1993	273,120	286,702	2007
Columbia Basin CC, 2004F	8,510,000	1,092,335	2020
UW, Sandpoint Bldgs 5 and 29, RE-2003E	4,165,000	618,120	2024
UW, 1999, Sandpoint and Primate Center	8,765,000	2,196,590	2021
Dept. of Personnel Human Resources Systems, 2004D	36,275,000	8,283,538	2016
SOS, Records Center EWU, 2002	11,240,000	2,272,775	2018
GA, Kelso Building and Land, 2000	3,590,000	930,475	2015
DOC, 2001 Workrelease Facility- Spokane Brownstone	2,630,000	471,945	2021
Bates Technical College-Communications Center, 2000B	3,330,000	634,359	2020
GA, Tacoma Co-location Project, 1996	12,990,000	2,716,650	2020
	$ 592,767,742	$ 155,700,257	

The 1989 Legislature authorized financing contracts for personal and real property. The state currently has in place a program that provides for the financing of equipment and real estate projects by competitive sale of certificates of participation in master financing contracts. The state's obligations are subject to appropriation.

State Unemployment Compensation Fund

Currently, unemployed workers are entitled to up to 30 weeks of regular unemployment insurance benefits, with a maximum state liability of $14,880 per unemployed worker. The maximum and minimum weekly benefit amounts payable are defined as percentages of the state's average weekly wage in covered employment. The maximum is now $496; the minimum is $109.

Legislative changes in 1984 improved the revenue-generating capacity of the unemployment insurance financing provisions. Collections under prior law could only meet the average annual benefit costs of the state's benefit provisions, and the reserve fund level (fund balance as a percent of total wages) could increase only during periods of low unemployment.

The experience rating system enacted in 1984 provided for six tax schedules with average yields ranging from 2.3 percent to 4.0 percent of taxable wages, depending on the reserve fund level. Each schedule has a maximum tax rate of 5.4 percent to conform to federal requirements. The highest tax schedule is in effect when the reserve fund level is below one percent of total wages, which was the case in 1985, 1986 and 1987. Growth in the trust fund triggered tax schedules with lower yields. The lowest tax schedule was in effect from 1990 through 1993. The reserve fund level continued to increase until June 30, 1993, after which it decreased slightly from 4.4 percent to 4.2 percent.

The 1993 Legislature concluded that the trust fund level was higher than necessary. In 1993, the Legislature enacted the new, lower tax schedule AA, and the 1995 Legislature enacted lower trust fund controls.

Changes in benefit and financing provisions were enacted by the legislature in 2003. The new law will place limits on the maximum weekly benefit amount and will reduce the computed benefit amounts for some claimants. The new financing provisions will not take effect until 2005. The department is in the process of analyzing the impact of changes in the financing provisions.

UNEMPLOYMENT COMPENSATION FUND
(Dollars in Millions)

	Beginning Balance	Receipts	Disbursements	June 30 Balance* Dollars	June 30 Balance* Percent**
FY 1993	$ 1,710	$ 684	$ 646	$ 1,748	4.2%
FY 1994	1,748	688	845	1,591	3.7
FY 1995	1,591	674	813	1,452	3.2
FY 1996	1,452	682	815	1,319	2.7
FY 1997	1,319	765	728	1,356	2.6
FY 1998	1,356	852	691	1,517	2.6
FY 1999	1,517	921	816	1,622	2.4
FY 2000	1,622	1,109	799	1,932	2.6
FY 2001	1,932	1,029	1,051	1,910	2.4
FY 2002	1,910	1,102	1,572	1,440	1.8
FY 2003	1,440	1,159	1,499	1,100	1.4

* As of September 30 beginning FY 2000.
** As a percent of total wages for the preceding calendar year.

State Retirement Systems

The table below presents details regarding liabilities and assumptions of the Washington State Retirement System Funds. These retirement plans are defined benefit plans, providing monthly cash payments in accordance with a specific schedule but providing neither pre-retirement nor post-retirement medical benefits. The benefit amount may be determined by a combination of service and/or salary. The state also participates in the Judicial Retirement System and the Volunteer Fire-Fighter System, which are minor in relation to those illustrated.

The Office of the State Actuary is overseen by the Select Committee on Pension Policy and performs all actuarial services for the Department of Retirement Systems, including all studies required by law. The tables included hereunder have been reviewed by the State Actuary and will be subject to revision at subsequent dates.

The pertinent items disclosed below are as follows:

(i) *Contribution Rates.* These are rates of contribution developed based upon the 2003 valuations, expressed as a percentage of the active members' compensation.

(ii) *Unfunded Actuarial Present Value of Fully Projected Benefits.* This is the unfunded actuarial present value of the state's total commitment to pensions, including the unfunded actuarial present value of benefits accrued to date for active, inactive and retired members, and the actuarial present value of projected future accruals for active members. (Contribution rates are derived from this data.)

(iii) *Unfunded Actuarial Present Value of Credited Projected Benefits.* This is the amount by which liabilities exceed assets. Liabilities are calculated by the Credited Projected Benefits Method. Benefits are projected to retirement, including future salary increases but only service earned to date.

(iv) *Funding Ratio.* The Funding Ratio is assets divided by liabilities. Liabilities are calculated by the Credited Projected Benefits Method.

(v) *Unfunded Actuarial Accrued Liability-Entry Age Cost Method.* This is a portion of the unfunded actuarial present value of fully projected benefits. The only significance of this item is in developing the contribution rates for the systems. Contributions toward the Unfunded Actuarial Accrued Liability have been developed as a level percentage of expected future payrolls. The current statute, chapter 41.45 RCW, requires the existing Unfunded Actuarial Accrued Liability, as well as future gains or losses, and benefit increases to be fully funded by the dates shown in the following table.

The Public Employees' Retirement System ("PERS"), the Teachers' Retirement System ("TRS"), the School Employees' Retirement System ("SERS"), and the Law Enforcement and Firefighters' Retirement System ("LEOFF") each include more than one plan. In the table below, contribution rates are shown for members entering before October 1, 1977 (Plan 1), and after October 1, 1977 (Plan 2). Plan 3 members do not make contributions to the Defined Benefit portion of the plan. SERS Plan 2/3 is composed of school employees hired on or after October 1, 1977, who were previously included in PERS Plan 2. School employees hired before October 1, 1977, remain in PERS Plan 1. A portion of the employer contribution for Plan 2/3 employees of SERS, PERS and TRS is contributed to the respective Plan 1.

At least once every six years, the State Actuary is required to perform studies in which the demographic assumptions used in each system are evaluated. These studies were performed for the 1995-2000 period. As a result of these studies, significant changes were made in these assumptions and in the asset valuation method. The results shown below reflect the new assumptions.

The major economic assumptions used, developed and adopted by the Pension Funding Council, are as follows:

(i) ultimate rate of assumed investment return: 8.0 percent per annum;

(ii) general salary increases: 4.5 percent per annum;

(iii) rate of Consumer Price Index increase: 3.5 percent (where applicable).

CONTRIBUTION RATES AND UNFUNDED LIABILITIES—RETIREMENT SYSTEMS
(Dollars in Millions)

	PRS [3]		TRS		SERS[3]		LEOFF		WSP	System Totals
Most Recent Valuation Date: September 30, 2003										
Contribution Rates	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)		
State	5.73%	5.73%	6.74%	6.74%	NA	7.56%	0.00%	2.88%	4.51%	
Employee	6.00%	3.38%	6.00%	2.48%	NA	3.51%	0.00%	7.20%	4.51%	
Employer (Other than State)	5.73%	5.73%	6.74%	6.74%	NA	7.56%	0.00%	4.32%	NA	
Unfunded Actuarial Present Value of Fully Projected Benefits	$ 3,407		$ 2,952		$ 314		$ 1,181		$ 63	$ 7,917
Unfunded Actuarial Present Value of Credited Projected Benefits	$ (520)		$ (276)		$ (225)		$ (1,068)		$ (124)	$ (2,213)
Funding Ratio (Assets/Actuarial Present Value of Credited Projected Benefits)	105%		102%		138%		116%		123%	107%
Unfunded Actuarial Accrued Liability (Entry Age Cost Method)	$ 1,389		$ 1,416		NA		$ (462)		NA	$ 2,343
Contribution Rate [4] to Fund Unfunded Actuarial Accrued Liability (Entry Age Cost Method)	2.10%		2.80%		2.10%		NA		NA	
Remaining Funding Period for Unfunded Actuarial Accrued Liability (Entry Age Cost Method)	June 30, 2024		June 30, 2024		June 30, 2024		NA		NA	

(1) Contribution rate for members entering system before October 1, 1977 (Plan 1).

(2) Contribution rate for members entering system after October 1, 1977 (applies to Plan 2 members, not Plan 3 members).

(3) The Public Employees Retirement System and School Employees Retirement System cover employees of the state and its political subdivisions as provided by statute. The figures shown above for Unfunded Actuarial Present Value of Fully Projected Benefits, Unfunded Actuarial Present Value of Credited Projected Benefits, and Unfunded Actuarial Accrued Liability represent the state's portion only, approximately 53 percent for PERS and SERS. The contribution rate in respect of the Unfunded Actuarial Accrued Liability is paid by all employers, and all these contributions go into the Public Employees Retirement System Plan 1, which covers both public and school employees.

(4) Contribution rates are effective July 1, 2005 (September 1, 2005, for the Teachers Retirement System and the School Employees Retirement System).

Source: Office of State Actuary

STATE CONTRIBUTIONS TO RETIREMENT SYSTEMS
(Dollars in Thousands)

Fiscal Year Ending June 30	PERS (1)	TERS (2)	SERS (2)	LEOFF (2)	Volunteer Firefighters (2)(3)	WSP (4)	Judicial (1)(2)
2000	$146,700	$258,300	NA	$ 17,100	$ 2,700	$ 0	$ 7,300
2001	152,200	210,900	10,600	20,900	3,300	0	7,300
2002	61,600	105,800	6,000	15,600	3,300	0	6,300
2003	47,300	38,600	6,200	10,300	3,300	0	6,200
2004	45,900	41,300	9,100	12,300	3,300	0	6,200

(1) State Agency Appropriations. Contributions commingled in each agency's operations budget.
(2) General Fund-State transfers.
(3) Nonappropriated: volunteer firefighters receive 40 percent of state tax on fire insurance premiums.
(4) Prior to the 2000 valuation, school employees were members of PERS 2.

Source: Office of State Actuary

ECONOMIC INFORMATION

This section provides certain information concerning the economic condition of the state. The demographic information and statistical data which are provided do not necessarily present all factors which may have a bearing on the state's fiscal and economic affairs.

Overview

Population. The 2000 U.S. census count of the state's population was 5,894,121, or 21.1 percent more than the 4,866,700 counted in 1990.

The Seattle-Bellevue-Everett Primary Metropolitan Statistical Area (the "Seattle PMSA") is the biggest single component of the state's economy, with a population of 2,414,616 in 2000, up 18.8 percent since 1990. King County and the adjacent counties to the north, Snohomish and Island Counties, comprise the Seattle PMSA, which is the fourth largest metropolitan center on the Pacific Coast. The city of Seattle, located in northwestern Washington, is the largest city in the Pacific Northwest and serves as the King County seat. The population trends of King County and the Seattle PMSA show continued growth at a higher rate than Seattle's, reflecting the stable economy of the area and the greater availability of residential construction sites outside Seattle.

In the eastern half of the state, population in the Spokane area grew to 417,939 in 2000, an increase of 15.7 percent over 1990, and the Yakima area's population increased to 222,581, growing by 17.9 percent since 1990.

Infrastructure. The state is the home of two full-facility sea ports, located in Seattle and Tacoma, and the Seattle-Tacoma International Airport ("Sea-Tac"). The state also is served by the federal interstate highway system and Union Pacific and Burlington Northern-Santa Fe railroads, as well as Amtrak passenger lines.

Human Resources. The concentration of technical, engineering, managerial, scientific, and other professional skills within the state's work force is due in part to the state's state-supported higher education system, which consists of two major universities, four regional universities and a system of community colleges. In addition, the state has 18 private colleges.

Economic Base. The economic base of the state includes manufacturing and service industries as well as agricultural and timber production. Industry sectors exhibiting growth include transportation, communication and utilities employment; finance, insurance and real estate; and services. Boeing, the state's largest private employer, is preeminent in aircraft manufacture and exerts a significant impact on overall state production, employment and labor earnings. The state ranks fourth among 12 leading states in the percentage of its work force employed in technology-related industries and ranks third among the largest software development centers. The state is the home of approximately 1,000 advanced technology firms, including Microsoft Corporation. The state's leading export industries are aerospace, forest products, agriculture, and food processing.

Population Characteristics

COMPONENTS OF POPULATION CHANGE
STATE OF WASHINGTON
1995-2005
(Population Numbers in Thousands)

		Population Change		Components of Change From Previous Period						
				Births		Deaths		Natural	Net Migration	
April 1	Population	Number	%	Number	% (1)	Number	% (1)	Increase	Number	% (1)
1995	5,470.1	105.8	2.0	77.5	14.3	40.0	7.4	37.5	68.3	12.6
1996	5,567.8	97.7	1.8	77.0	13.9	41.2	7.5	35.9	61.8	11.2
1997	5,663.8	96.0	1.7	78.0	13.9	42.6	7.6	35.4	60.6	10.8
1998	5,750.0	86.3	1.5	78.8	13.8	41.6	7.3	37.3	49.0	8.6
1999	5,830.8	80.8	1.4	79.8	13.8	43.1	7.5	36.6	44.2	7.6
2000	5,894.1	63.3	1.1	79.9	13.6	43.7	7.5	36.1	27.2	4.6
2001	5,974.9	80.8	1.4	80.7	13.6	43.9	7.4	36.8	44.0	7.4
2002	6,041.7	66.8	1.1	79.3	13.2	44.9	7.5	34.4	32.4	5.4
2003	6,098.3	56.6	0.9	79.1	13.0	44.7	7.4	34.3	22.3	3.7
2004(2)	6,167.8	69.5	1.1	80.9	13.2	46.2	7.5	34.7	34.8	5.7
2005(2)`	6,256.4	88.6	1.4	83.0	13.4	47.8	7.7	35.3	53.3	8.6

(1) Rates are per 1,000 midpoint population and are computed on unrounded numbers.
(2) Estimates.

Source: Office of Financial Management, available at www.ofm.wa.gov/databook/contents.htm#population

DISTRIBUTION OF POPULATION BY AGE
(Population Numbers in Thousands)

	Washington State				United States			
Age	1990 Number	% of Total	2000 Number	% of Total	1990 Number	% of Total	2000 Number	% of Total
Under 5	374	7.7	394	6.7	18,354	7.4	19,176	6.8
5 to 19	1,031	21.2	1,289	21.9	52,967	21.3	61,298	21.8
20 to 24	353	7.2	390	6.6	19,020	7.6	18,964	6.7
25 to 34	856	17.6	841	14.3	43,176	17.4	39,892	14.2
35 to 44	801	16.5	975	16.5	37,579	15.1	45,149	16.0
45 to 54	500	10.3	846	14.4	25,223	10.1	37,678	13.4
55 to 64	381	7.8	497	8.4	21,148	8.5	24,274	8.6
65 and over	571	11.7	662	11.2	31,242	12.6	34,992	12.4

Source: Office of Financial Management, available at www.ofm.wa.gov/databook/contents.htm#population, and the U.S. Bureau of Census, available at www.census.gov/statab/www/

Income Characteristics

The following table provides a comparison of personal income for the state and the nation for the last ten years.

PERSONAL INCOME COMPARISON
WASHINGTON AND U.S.
1998-2005
(Dollars in Billions)

	Current Dollars(1)				2000 Chained Dollars(2)			
	Washington		United States		Washington		United States	
Year	Amount	Percent(4)	Amount	Percent(4)	Amount	Percent(4)	Amount	Percent(4)
1997	150.1	7.5%	6,915.1	6.1%	157.8	5.7%	7,269.9	4.3%
1998	163.8	9.1	7,423.0	7.3	170.6	8.1	7,734.4	6.4
1999	175.5	7.2	7,802.4	5.1	179.9	5.4	7,997.1	3.4
2000	187.9	7.0	8,429.7	8.0	187.9	4.4	8,430.1	5.4
2001	193.5	3.0	8,724.1	3.5	189.5	0.9	8,545.4	1.4
2002	197.3	2.	8881.9	1.8	190.6	.6	8,578.4	0.4
2003	201.3	2.0	9,169.1	3.2	190.8	0.1	8,689.8	1.3
2004	216.3	7.4	9,713.3	5.9	199.8	4.7	8,974.0	3.3
2005(3)	222.8	3.0	10,275.9	5.8	200.1	.1	9227.4	2.8
2006(3)	239.2	7.4	10,944.4	6.5	209.5	4.7	9583.3	3.9

(1) Current dollars: the actual price of something when it was bought, not adjusted for cost of living index (commonly called inflation).
(2) Chained dollars: created from the geometric mean of two growth calculations; allows for a comparison of data in a time series to accurately indicate growth or decline in indicators.
(3) Revenue forecast as of November 2005.
(4) Percent change; annual rate.

Source: Washington State Office of the Forecast Council and U.S. Department of Commerce, Bureau of Economic Analysis

Employment Characteristics

AVERAGE ANNUAL EMPLOYMENT(1)
RESIDENT CIVILIAN LABOR FORCE AND EMPLOYMENT IN WASHINGTON STATE
(Employment Numbers in Thousands)

	2000	2001	2002	2003	2004
Resident Civilian Labor Force	3,051.1	3,050.5	3,109.4	3,160.3	3,233.6
Unemployment	152.0	189.1	228.0	233.5	201.3
Unemployment Rate(2)	5.0%	%6.2	7.3%	7.4%	6.2%
Total Employment	2,899.2	2,861.4	2,881.4	2,926.8	3,032.3
Nonagricultural Wage and Salary Workers Employed in Washington					
Nonfarm Employment	2,711.6	2,697.4	2,654.0	2,657.8	2,702.2
Durable Manufacturing Employment	236.5	225.0	199.3	183.8	182.2
Aerospace Employment	86.2	87.3	75.7	65.3	61.4
Computer Employment	34.4	32.4	26.2	23.4	22.1
Nondurable Manufacturing Employment	95.4	91.1	85.7	83.3	81.3
Natural Employment	10.0	9.8	9.4	8.6	9.2
Construction Employment	160.6	158.8	154.2	156.2	164.3
Trade, Transportation, Communication, and Utilities Employment	531.9	523.8	509.3	509.8	519.4
Information Employment	97.6	99.0	93.6	92.3	92.5
Software Employment	32.2	35.9	36.1	37.3	39.2
Financial Employment	142.3	145.2	146.2	151.9	152.1
Professional Employment	303.8	296.9	290.2	290.5	302.4
Education Employment	291.9	298.3	306.8	312.8	319.4
Leisure Employment	251.7	247.1	245.4	249.0	255.5
Other Service Employment	106.2	96.9	97.8	98.9	100.3
Government Employment	483.4	505.4	516.2	520.7	523.8

(1) Averages of monthly data.
(2) Unemployment rate as of March 2005 equals 5.2%.

Source: Washington State Office of the Forecast Council

COMPARISON OF EMPLOYMENT TRENDS BY INDUSTRY SECTOR (%) (1)

	State		United States	
	1994	**2004**	**1994**	**2004**
Manufacturing				
Nondurable Manufacturing				
Food and Kindred	1.7	1.3	1.3	1.1
Pulp and Paper	0.7	0.5	0.6	0.4
Other	1.8	1.3	4.1	2.6
Subtotal	4.1	3.0	6.0	4.1
Durable Manufacturing				
Lumber and Wood	1.0	0.7	0.5	0.4
Primary Metals	0.5	0.2	0.6	0.4
Fabricated Metals	0.7	0.6	1.4	1.1
Machinery	0.5	0.5	1.2	0.9
Computers	1.1	0.8	1.4	1.0
Transportation Equipment	4.4	2.7	1.7	1.3
Other	1.2	1.2	2.1	1.7
Subtotal	9.4	6.7	8.9	6.8
Total Manufacturing	13.5	9.8	14.9	10.9
Nonmanufacturing				
Natural Products	0.4	0.3	0.6	0.4
Construction	5.3	6.1	4.5	5.3
Trade, Transportation, Communication, Utilities	19.7	19.2	20.2	19.4
Information Services	2.6	3.4	2.4	2.4
Financial Services	5.4	5.6	6.0	6.1
Professional	10.0	11.2	10.6	12.5
Education	10.7	11.8	11.2	12.9
Leisure	9.3	9.5	8.8	9.5
Other Services	4.1	3.7	3.9	4.1
Government	19.0	19.4	16.9	16.4
Total Nonmanufacturing	86.5	90.2	85.1	89.1
Total(2)	100.0	100.0	100.0	100.0

(1) Figures are calculated as a percentage of total wage and salary employment.

(2) Numbers may not add due to rounding.

Source: Washington State Office of the Forecast Council

ANNUAL AVERAGE CIVILIAN LABOR FORCE, UNEMPLOYMENT AND UNEMPLOYMENT RATES FOR WASHINGTON AND THE UNITED STATES

1999-2006

(Employment Numbers in Thousands)

	Civilian Labor Force		Number of Unemployed		Unemployment Rate		Wash. Unemployment as Percent of U.S.
Year	Wash.	U.S.	Wash.	U.S.	Wash.(%)	U.S.(%)	Rate(%)
1999	3,066	141,012	149	7,511	4.8	4.2	114.9
2000	3,051	142,610	152	5,710	5.0	4.0	125.6
2001	3,050	143,925	189	6,985	6.2	4.8	130.5
2002	3,109	145,125	228	8,643	7.3	5.8	126.8
2003	3,160	146,509	233	8,775	7.4	6.0	123.3
2004	3,234	147,390	201	8,143	6.2	5.5	112.7
2005*	3,289	148,901	185	7,706	5.6	5.2	108.6
2006*	3,362	151,005	195	7,834	5.8	5.2	112.0

* The 2005 and 2006 figures are based on the June 2005 forecast.

Source: Washington State Office of the Forecast Council and the U.S. Dept. of Labor, Bureau of Labor Statistics

Companies. The following two tables provide information on the top companies headquartered in the state, ranked by revenues. The Boeing Company, headquartered in Chicago, Illinois, is the largest employer in the state, with revenues in 2004 of $52.5 million.

WASHINGTON'S TWENTY-FIVE LARGEST PUBLIC COMPANIES, RANKED BY 2003 REVENUES (in Millions)

		Revenues			Revenues
1.	Costco Wholesale Corp.	$ 42,546	14.	Potlatch Corp.	$ 1,507
2.	Microsoft Corp.	32,187	15.	Western Wireless Corp.	1,501
3.	Weyerhaeuser	19,873	16.	Plum Creek Timber Co. Inc.	1,196
4.	Washington Mutual	18,013	17.	Avista Corp.	1,123
5.	AT&T Wireless Services	16,695	18.	Unova Inc.	1,123
6.	Paccar Inc.	8,195	19.	Nextel Partners Inc.	1,123
7.	Safeco Corp.	7,358	20.	Labor Ready Inc.	1,019
8.	Nordstrom Inc.	5,975	21.	Longview Fibre Co.	891
9.	Amazon.com Inc.	5,264	22.	Esterline Technology Corp.	773
10.	Starbucks Coffee Co.	4,076	23.	Getty Images Inc.	563
11.	Expeditors International Inc.	2,625	24.	The Nautilus Group Inc.	523
12.	Puget Sound Energy	2,492	25.	Washington Federal Savings	499
13.	Alaska Air Group Inc.	2,445			465

Source: Puget Sound Business Journal 2005 Book of Lists

WASHINGTON COMPANIES IN FORTUNE 500 IN 2004
(Dollars in Millions)

	Company	Rank	Revenues	Headquarters/Location
1.	Costco Wholesale	29	$ 42,546	Issaquah
2.	Microsoft Corp.	46	32,187	Redmond
3.	Weyerhaeuser Co.	95	19,873	Federal Way
4.	Washington Mutual Inc.	103	18,629	Seattle
5.	AT&T Wireless	120	16,695	Redmond
6.	Paccar	250	8,195	Bellevue
7.	Safeco Corp.	267	7,358	Seattle
8.	Nordstrom Inc.	286	6,492	Seattle
9.	Amazon.com	342	5,264	Seattle
10.	Starbucks	425	4,076	Seattle
11.	Expeditors International	582	2,625	Seattle
12.	Puget Energy	598	2,492	Bellevue
13.	Alaska Air Group	611	2,445	Seattle
14.	Potlatch	855	1,507	Spokane
15.	Western Wireless	858	1,501	Bellevue
16.	Plum Creek Timber	992	1,196	Seattle

Source: Fortune Magazine Fortune 500, February 2005

Annual Retail Sales Activity

The state is home to a number of specialty retail companies that have reached national stature, including Nordstrom, Eddie Bauer, Costco, and Recreational Equipment Inc. The following table provides a history of retail sales activity in the state.

FISCAL YEAR RETAIL SALES ACTIVITY 1996-2003
(Dollars in Billions)

Fiscal Year	Washington	% Change	United States	% Change
1996	62.8	1.5	2,577.6	5.3%
1997	66.7	6.2	2,715.3	5.3
1998	72.1	8.1	2,845.7	4.8
1999	77.2	7.1	3,026.3	6.3
2000	83.4	8.0	3,291.5	8.8
2001	85.6	2.7	3,418.3	3.9
2002	84.4	(1.4)	3,520.8	3.0
2003	86.2	2.1	3,660.5	4.0

Source: Washington State Office of the Forecast Council and the U.S. Department of Commerce

Trade

One in six jobs in the state is related to international trade. The state, particularly the Puget Sound corridor, is a trade center for the Northwest and the state of Alaska. During the past 20 years, the state consistently has ranked number one or number two in the nation in international exports per capita.

Ports. The Ports of Seattle and Tacoma serve as one of the three major gateways for marine commerce into the United States from the Pacific Rim, and each rank among the top 20 ports in the world based upon volume of containerized cargo shipped. The ten largest shipping lines in the world call at these ports, and on a combined basis, these ports rank as the second-largest load center for the shipment of containerized cargo in the United States.

Approximately 70 percent of the cargo passing through the Ports of Seattle and Tacoma has an ultimate destination outside of the Pacific Northwest. Therefore, trade levels depend largely on national and world economic conditions, rather than local economic conditions.

Airport. The city of Seattle is the commercial center for the state and is near a major international airport, Sea-Tac, which has scheduled passenger service by 15 major/national, three regional/commuter and ten foreign flag carriers. In addition, 16 all-cargo carriers have scheduled cargo service at Sea-Tac. Sea-Tac is the 23rd busiest airport in the nation for aircraft operations and the 20th busiest cargo airport.

Manufacturing

The state's manufacturing base includes aircraft manufacture, with the aerospace industry currently representing approximately eight percent of all taxable business income generated in the state. Boeing remains the largest employer in the Puget Sound area, although total employment within the company dropped from 238,600 to 160,600 and employment within the State dropped from 103,420 to 57,000 between February 1998 and June 2003. In September 2001, the company relocated its corporate headquarters to Chicago, Illinois, a move that affected approximately one-half of the 1,000 people who worked in the Seattle location.

The following table shows the record of sales and earnings reported by Boeing for the last five years:

BOEING SALES AND EARNINGS

Year	Sales (Billions) (1)	Earnings (Millions)
2000	$ 51.3	$ 2,128
2001	58.2	2,827
2002	53.8	492(2)
2003	50.3	718(3)
2004	52.5	1,872

(1) Includes firm orders; excludes options, orders without signed contracts, and orders from firms that have filed for bankruptcy.

(2) Restated to show cumulative effect of accounting change.

(3) Decrease in total earnings in 2003 due primarily to decreases in commercial airplanes and launch and orbital systems divisions earnings.

Source: The Boeing Company

While Boeing has dominated manufacturing employment, other manufacturers also have experienced growth, thus reducing Boeing's percentage of total manufacturing jobs in the state.

Technology-Related Industries

The most significant growth in manufacturing jobs, exclusive of aerospace, has occurred in high technology-based companies. The state ranks fourth among all states in the percentage of its work force employed in technology-related industries and ranks third among the largest software development centers. The state is the home of approximately 1,000 advanced technology firms; nearly 50 percent of these firms are computer-related businesses. Microsoft, which is headquartered in Redmond, Washington, is the largest microcomputer software company in the world. Microsoft's fiscal year 2004 revenues were $36.8 billion, compared to $32.2 billion in fiscal year 2003.

Services/Tourism

As the business, legal and financial center of the state, Seattle ranks ninth in the country in the number of downtown hotel rooms (7,600 rooms in 50 hotels and motels). The Washington State Convention and Trade Center opened in June 1988, with the capacity for events involving as many as 11,000 people. An expansion of the Convention and Trade Center that doubled the exhibition space and added a private office tower, hotel and museum was completed in 2001.

Timber

Natural forests cover more than 40 percent of the state's land area. Forest products rank second behind aerospace in value of total production. The Weyerhaeuser Company is the state's largest forest products employer.

A continued decline in overall production during the next few years is expected due to federally imposed limitations on the harvest of old-growth timber and the inability to maintain the recent record levels of production increases. The decline is not expected to have a significant effect on the state's overall economic performance.

Agriculture and Food Processing

Agriculture, combined with food processing, is an important state industry. The state's major products—wheat, apples, milk, and cattle—comprise more than half of total production. The values and uses of farmland in the state are expected to change in the future, with the listing of local salmon runs as endangered by the U.S. Environmental Protection Agency.

Construction

The following table provides information on housing units for the state and the United States.

HOUSING UNITS AUTHORIZED IN WASHINGTON AND THE UNITED STATES
1999-2006

Calendar Year	Washington	United States (1)
1999	42,752	1,647,250
2000	39,021	1,573,333
2001	38,345	1,601,167
2002	40,200	1,710,250
2003	42,825	1,852,500
2004	50,089	1,951,833
2005(2)	48,268	2,068,669
2006(2)	46,812	1,835,291

(1) Actual housing starts prior to current year.
(2) 2005 and 2006 figures are based on the June 2005 forecast.

Source: *Washington State Office of the Forecast Council and the Department of Commerce*

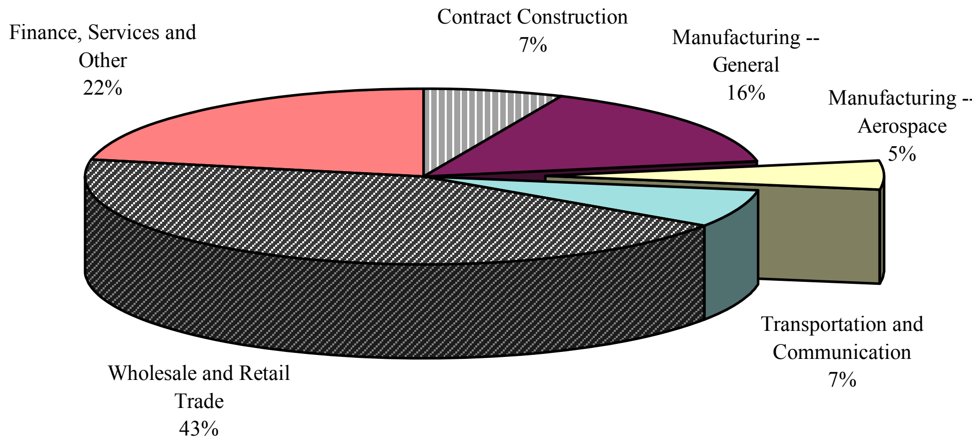
Federal, State and Local Government

On a combined basis, employment in the government sector represents approximately 18.7 percent of all wage and salary employment in the state. Seattle is the regional headquarters of a number of federal government agencies, and the state receives an above-average share of defense expenditures.

Summary

The following diagram provides an overall description of business income by industry sector for 2004.

Gross Business Income by Industry Sector 2004



Source: Department of Revenue, "Quarterly Business Review Calendar Year 2004", Table 1.

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